Austria	Sch22	Indonesia	Rp3100	Portugal	Esc120
Bahrain	Din0.650	Israel	NIS3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1700	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta145
Cyprus	C£0.90	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr10.00	Kuwait	Fils 500	Sweden	SKr9.00
Egypt	E£2.25	Lebanon	$1125.00	Switz	SFr2.30
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rin4.25	Thailand	Bht50
Germany	DM2.30	Mexico	Peso300	Tunisia	Din0.800
Greece	Dr120	Morocco	Dh6.00	Turkey	L600
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,576 Wednesday June 29 1988 D 8523 A

The American eagle that never landed in the City, Page 18

World News

Mitterrand names new minority government

President François Mitterrand named a new Socialist minority Government yesterday, to be headed by Prime Minister Michel Rocard and including several independents. The cabinet includes leading Socialists in all key posts, similar to the Government that resigned two weeks ago. The announcement follows last month's inconclusive elections, in which the Socialists failed to win a parliamentary majority.

Suit against Teamsters

The US Government filed a suit against the Teamsters Union, alleging that Mafia infiltration had deprived union members of their rights. Page 20

US nuclear power alert

An incident at an Illinois nuclear power plant that could have led to a meltdown has prompted a nationwide safety alert for certain reactors, the US Nuclear Regulatory Commission said.

Hungarians expelled

The Romanian government ordered the immediate closure of a Hungarian consulate and expelled the consular staff, the Hungarian state news agency MTI reported.

Namibia border clashes

Eleven South African soldiers and 200 Cuban and Angolan soldiers died in the first major clashes with Cuban forces close to the border with Pretoria-ruled Namibia, South African defence authorities said.

French death toll 59

The death toll in Monday night's rail crash in Paris rose to 59. More than 40 others were injured in France's worst rail accident for a decade.

Iraqi attack repelled

Iran said its forces defeated an Iraqi attempt to recapture positions on mountains in northeast Iraq, seized by Iran in March. It alleged chemical weapons were used in the offensive. Iranian background, Page 4

Palestinians wounded

Israeli soldiers shot and wounded two Palestinian youths in Nablus as a general strike, called to commemorate the 21st anniversary of the annexation of east Jerusalem, virtually closed the Arab part of the city and the occupied West Bank and Gaza Strip.

SA township clashes

Two people were killed in Slangspruit township, near the Natal provincial capital of Pietermaritzburg. 600 blacks have died in faction fighting in the area since the end of last year. EC Sharpeville appeal, Page 2

Polish ports accord

East Germany agreed that Polish ports should have full access to the sea. Extension of East German territorial waters in November 1985 had given it control of a waterway from the Baltic to the twin ports of Szczecin and Swinoujscie.

Fiji budget revised

Budget revisions presented by Fiji's finance minister envisage the easing of wage and rent freezes. Strict exchange controls imposed after the May 14 coup remain in force.

Pope plot 'a hoax'

A suspected assassination plot against Pope John Paul was a hoax. Two Turks arrested in Vienna, shortly before the Pope arrived for a five-day visit to Austria, face charges of feigning a punishable offence.

Shuttle launch delayed

The launch of the US space shuttle Discovery has been delayed until early September. The launch, originally due for August, will be the first since the Challenger disaster in January 1986.

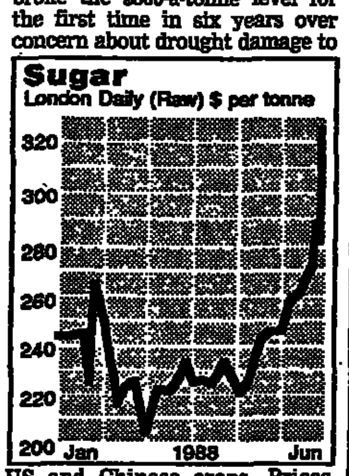
Business Summary

IBM tries to broaden patent protection

INTERNATIONAL Business Machines, world's largest computer company, in a move to broaden protection of its patent portfolio, said it believed "anybody who is developing an information-handling system probably needs to use an IBM patent." The statement was seen to have broad implications for the entire computer industry. Page 21

CITICORP, biggest US commercial banking group, has approached First RepublicBank about a possible acquisition of the insolvent Dallas-based bank holding company, which has assets of $30bn. Page 21

SUGAR: London sugar futures broke the $300-a-tonne level for the first time in six years over concern about drought damage to US and Chinese crops. Prices opened with sharp gains and the London daily price for raw sugar was fixed in the morning at $328 a tonne, up $39. Page 30



LONDON: The half-point rise in base rates was welcomed by investors. An initial 13 point fall in the FT-SE 100 index vanished as it closed 15.4 points higher at 1,856.9. Page 38

TOKYO: Uncertain market outlook prompted speculative trading for quick profit. Share prices fell in hectic trading, and volume was the fourth largest ever. The Nikkei average dropped 36.92 to 27,398.09. Page 42

WALL STREET: The Dow Jones Industrial Average closed up 22.41 at 2,130.87. Page 42

DOLLAR closed in New York at DM1.8220, Y132.65, SFr1.5065, FFr6.1390. It closed in London at DM1.8090 (DM1.8185), Y130.90 (Y130.85), SFr1.4960 (SFr1.5055), FFr6.0925 (FFr6.1375). Page 31

STERLING closed in New York at $1.7090. It closed in London at $1.7190 ($1.7030), DM3.1100 (DM3.0975), Y225.00 (Y222.75), SFr2.5725 (SFr2.5650), FFr10.4725 (FFr10.4525). Page 31

BARCLAYS DE Zoete Wedd, London Stock Exchange market maker, launched an automatic share trading system which it said represents direct competition for the Stock Exchange's system. Page 21

SAUDI ARABIA'S oil refineries are to be combined in a single company as a further step to reorganisation. Page 24

SALOMON BROTHERS, New York investment bank, is to buy 20 per cent of DFC New Zealand, the state-owned merchant bank. Page 24

JAPAN'S electronic printer makers have denounced as a "gross iniquity" the basis of anti-dumping charges assessed by the European Community. Page 7

Unit trust prices

Changes are being made in the Unit Trust Information Service pages from today's issue to provide a range of additional information on authorised unit trusts.

In addition to the cancellation prices which unit trusts are obliged to publish from July 1 under the Financial Services Act, the tables will show, where available, initial charges daily. We will also show the time when published prices were set and whether dealings were on a historic or forward basis.

The full information will be: name of fund, time and/or dealing, initial charge, cancellation price, bid value, offer value, change since previous day or last valuation and yield. Page 32

'WHAT IS AT STAKE IS THE COUNTRY'S FUTURE, THE FUTURE OF SOCIALISM'

Gorbachev calls for most radical policy changes in 50 years

BY QUENTIN PEEL AND CHARLES HODGSON IN MOSCOW

MR MIKHAIL GORBACHEV, the Soviet leader, yesterday challenged his Communist Party to hand over sweeping powers to elected bodies, to create a new parliament and an executive president and to embark on an overhaul of the entire legal system. His proposals would amount to the most radical changes to the Soviet state to be planned in more than 50 years.

Mr Gorbachev called for a separation of the functions of the all-powerful ruling party and the state, for a revival of the authority of the elected Soviets, for the decentralisation of decision-making from Moscow and for multi-candidate elections to promote democracy.

The president, who may or may not be the same person as the Communist Party General Secretary, is intended to have wide powers, including those of proposing a prime minister and overseeing foreign and domestic policy.

"What is at stake is the country's future, the future of socialism," Mr Gorbachev told 5,000 delegates at an extraordinary party conference. "We have no right to permit *perestroika* to founder on the rocks of dogmatism and conservatism, on anyone's prejudices and personal ambitions. There can be no question of compromise."

At the same time, he spelt out his determination to press ahead with further drastic economic reforms, including an overhaul of the pricing system, with the likelihood of sharp increases in the prices of essential foodstuffs, energy and raw material costs.

In a 3¾ hour speech, Mr Gorbachev demanded the biggest political concessions yet from his own party members, and bluntly criticised the "gross violations" of democracy committed by the ruling party for more than 50 of its 70 years in power.

Yet he left a range of key questions, over the future powers of the party, over controls on its officials and over the conduct of elections, for the conference to decide. His own supporters fear that a majority of the 5,000 delegates summoned to the conference, the first to be held for 47 years, will try to limit the potential damage to their power and privilege.

Moreover, it was unclear whether the proposed executive president would rank above the party leader, below him, or whether the two jobs would automatically be combined.

The Soviet leader said that the future of his entire economic and social reform programme was being threatened by the dead weight of party and state bureaucracy, and a rigid "command style of administration" inherited from the Stalin era.

"The principle of democratic centralism which underlies the structure and activity of the Soviet Communist party was . . . largely replaced by bureaucratic centralism," he said.

Mr Gorbachev was damning in his criticism of the past, not only of the crimes of the Stalin era, but also of the "era of stagnation" under Leonid Brezhnev.

"Many of those who remained in leading posts for years got a false idea of being infallible and irreplaceable," he said. "They lost contact with the party masses and working people which often ended, as we know, in their political and moral degradation. It is here that we find the causes behind the shameful facts of power abuse and moral degradation exposed in the course of *perestroika*."

His main proposals would seek to revive the power of the Soviets, elected bodies at the national, republic, region, city and district level, to handle all legislation. At the same time, the party would deny itself any role in executive functions, cease to issue orders to state bodies and enterprises, and return to the Leninist tradition of acting as a "political vanguard."

At national level, he would create a congress of people's deputies, with 2,250 members, above the existing Supreme Soviet. The latter would become a streamlined body of 400-450 members, with the job of regular monitoring all state legislation in its two chambers. At present it merely holds two rubber-stamp sessions a year.

The executive president, with substantial powers to propose a prime minister, exercise overall guidance in drafting legislation and major socio-economic programmes, decide the key issues of foreign policy, defence and national security, and chair the Soviet defence council, would be elected by the new congress in a secret ballot.

GORBACHEV'S CHIEF DEMANDS

- POLITICS: wide handover of powers from party to elected bodies; executive president to be elected by national congress, chosen in multi-candidate elections by secret ballot;
- ECONOMY: reform of prices through abolition of state subsidies on key goods; improved supply of food and consumer products;
- LEGAL SYSTEM: reform of courts and better training for lawyers and militia;
- HUMAN RIGHTS: freedom of conscience; legal right to privacy;
- NATIONALITIES: rejection of demands for boundary changes.
- FOREIGN POLICY: priority for economic links with socialist neighbours; moves toward single socialist market.

A democratic vision under the eyes of Lenin

BY CHARLES HODGSON IN MOSCOW

THE RUTHLESSLY functional glass and concrete Palace of Congresses erected amid the graceful spires and onion domes of the Kremlin the 1950s has a capacity crowd for the Soviet Communist Party's first extraordinary conference in 47 years.

Some 5,000 people packed the building's three tiers as Mr Mikhail Gorbachev emerged to a scripted standing ovation against a backdrop dominated by a rust-red half-tone of Vladimir Lenin looking grimly determined.

He was flanked on the platform by leading politburo members, with Mr Yegor Ligachev, long regarded as the ghost at the reforming leader's feast, on his right and Mr Andrei Gromyko, the veteran President of the Supreme Soviet, on his left.

The affair began in traditional manner with a brisk and businesslike vote on the conference administration and agenda. All the party lists were approved unanimously with Mr Gorbachev barely looking up to see the show of hands.

Once into his speech, however, the Soviet leader made plain that he did not like all this unanimity as he sketched out plans for multi-candidate elections by secret ballot with tenure of office limited to two five-year terms. But he backed away from the idea of an upper age limit on jobs.

Beginning with an assessment of the effects of his reform programme Mr Gorbachev hit at the "ossified system of government" that threatened to condemn it forever to pre-history. Warming energetically to his theme, he blamed the "elements of stagnation" and "forces of inertia" in management and the party for "undisguised attempts to pervert perestroika."

Even he, however, felt the need to soften his call for mass self-purification with a liberal sprinkling of comforting homilies which brought the only breaks for applause. Just when his audience might have thought he was ranging adrift from traditional dogma, Mr Gorbachev craftily introduced a quote from Lenin, as if to demonstrate he was simply restating socialist ideals.

Sipping from a glass of milk frequently replenished by a waiter seemingly oblivious to the drama of the moment, Mr Gorbachev went on to urge wide-ranging changes in party organisation.

Thatcher objection to European currency jars summit conclusion

BY DAVID MARSH, DAVID BUCHAN AND WILLIAM DAWKINS IN HANOVER

THE European Community faces more wrangling over future monetary union after Mrs Margaret Thatcher, the British Prime Minister, yesterday signalled deep aversion to significant steps to strengthen currency co-operation.

Mrs Thatcher struck a jarring note as the EC summit in Hanover ended yesterday on a general note of bonhomie. "I do not share the vision of a united states of Europe and a single currency," she said.

The 12 Community leaders declared as their objective "progressive realisation of economic and monetary union." They launched a year-long study aimed at proposing "concrete stages leading towards this union" by a high level committee, to be headed by Mr Jacques Delors, the EC Commission president.

Britain has little prospect of blocking the Delors study, since its terms of reference are in line with the Single European Act ratified by all countries last year.

The committee will comprise 11 EC central bank governors and four other experts: Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements, Mr Niels Thygesen, a Copenhagen economics professor, Mr Miguel Boyer, a former Spanish Finance Minister, and Mr Frans Andriessen, a former Dutch Finance Minister who is now an EC Commissioner.

Mr Helmut Kohl, the West German Chancellor, said the meeting had given new drive towards economic integration. He was winding up Bonn's six-month EC presidency, which has been highly successful in pressing forward with plans for a genuine common market by 1992.

The idea of a European central bank, backed by the French and Italians but anathema to Mrs Thatcher, is certain to loom large in the study, although the committee has not been asked to look specifically into the creation of such a bank.

Mrs Thatcher said she did not expect a European central bank to be set up within her lifetime. However, Mr Kohl said he was 90 per cent certain that European monetary union would take place by the end of the century.

President François Mitterrand hailed the creation of the Delors group as unstoppable progress.

The most outspoken supporter of a European central bank, Mr Ciriaco De Mita, the Italian Prime Minister, said: "Everybody knows it is absolutely impossible to have such a union without a common currency and an institution to govern this currency and monetary policy."

Mr Delors said in a joint press conference with Mr Kohl that Europe's years of difficulties had given way to a "somewhat euphoric" pace of renewal. He said later that Mrs Thatcher's hostile remarks yesterday over European monetary integration should not be taken too seriously. In Britain, Mrs Thatcher's opposition to full UK membership of the European Monetary System had made her "a little isolated."

Mr Delors was given a formal two year renewal as EC Commission president from the end of 1988. He made clear yesterday he expected to stay on for a total four years as president.

The committee has been asked to complete its work in time for Finance Ministers to scrutinise its findings before the Madrid summit a year from now.

EC share stakes move; Working conditions plea, Page 2

W Germany expected to follow UK and raise rates

BY Andrew Fisher in Frankfurt and Philip Stephens in London

WEST GERMANY'S Bundesbank is expected to raise its discount rate tomorrow following a further increase in UK base rates yesterday.

The Bundesbank is expected to increase its discount rate by half a point to 3 per cent in an effort to counter the D-Mark's weakness, exert greater control over the money supply, and act against incipient inflation.

Speculation that the central bank would lift the rate gathered strength yesterday as concerted intervention by European central banks had only limited success in braking the dollar's recent rise on foreign exchange markets. After falling sharply in an immediate reaction to the intervention, the US currency subsequently recouped much of its losses.

The dollar closed in New York yesterday at DM1.8220, up from DM1.8217 on Monday, and at Y132.65 up from Y131.12.

In Britain, the Government yesterday pushed up the cost of borrowing for the fourth time this month, signalling a ½ point rise in banks' base lending rates to 9½ per cent in response to Monday's news of a massive increase in the UK's trade deficit. The rise, announced by the UK's major banks after a lead from the Bank of England, is expected to trigger higher home loan rates in coming weeks.

Mrs Margaret Thatcher, the Prime Minister, said that the news of a worst-ever £1.2bn ($2.13bn) deficit on the current account of Britain's balance of payments in May had been "very disappointing".

In Frankfurt, German call money rates of up to 4.5 per cent were already signalling a rise in the discount rate - unchanged at 2.5 per cent since last December - a week after the cost of securities repurchase deals ('repos') was increased to 3.50 from 3.25 per cent.

The dollar sales, led by the Bundesbank and estimated by one European official to have totalled around $500m, followed small-scale intervention by the US Federal Reserve on Monday. The Bank of England, the Bank of Italy and the Bank of France as well as several smaller European central banks joined in yesterday's intervention, though on a similarly modest scale. The Bank of Japan, however, appeared not to have participated.

The US currency's resilience hardened expectations that tomorrow's meeting of the Bundesbank's council would react to the continuing outflow of funds

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BAHAMAS IRRITATION DEEPENS OVER US DRUGS CHARGES

Conspiracy theorists say Sir Lynden Pindling is keen on a Cuban air link as a warning to the US. Page 20

Iran: Rafanjani — pragmatic power behind the revolution 4

Boxing: Tyson delivers a knockout blow for capitalism 6

Management: An indian motorbike maker's strategy in international markets 8

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Drought: US crops calamity may help cut Europe's grain mountain 20

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MOSCOW PARTY CONFERENCE

Gorbachev strives to entrench his revolutionary changes

The following are extracts from the official English translation of Mikhail Gorbachev's opening speech to the 19th Communist Party Conference yesterday.

Comrade delegates, the basic question facing us, delegates to the 19th All-Union Party Conference, is how to further the revolutionary restructuring launched in our country on the initiative and under the leadership of the Party and make it irreversible.

The past three years of our life may be quite legitimately described as a radical turn. The Party and the working people have managed to halt the country's drift towards economic, social and spiritual crisis.

The perestroika policy, as translated into concrete socio-economic programmes, is becoming the practical business of millions of people.

But does this mean that changes for the better are under way everywhere, that they are going on in full gear and that the revolutionary transformations have become irreversible?

No it does not. If we want to be realists, comrades, we must admit that this has not yet occurred. . . What we need now are new, qualitative changes. . . and that calls for cardinal solutions and vigorous and imaginative action.

ECONOMY

The economy is gradually gaining pace. Last year, for the first time, the entire accretion of the national income was obtained by increasing the productivity of labour. People's per capita real incomes have begun to grow again.

The birth rate has gone up while the death rate has dropped. This is related to no small extent to the war we have declared on hard drinking and alcoholism.

There are the tangible fruits of perestroika. But comrades, we have got to be self-critical; we must see clearly that despite all the positive effects, the state of affairs in the economy is changing too slowly.

Frankly speaking, comrades, we underestimated the extent and gravity of the deformations and stagnation of the preceding period.

How serious the situation is may be judged, among other things, by the country's financial situation. For many years, the state budget expenditure has grown more rapidly than revenues. The budget deficit is pressing down upon the market, undermining the stability of the rouble and of monetary circulation as a whole, and giving rise to inflationary processes.

Let me begin with the food problem, which is probably the most painful and the most acute problem in the life of our society.

Some advances are on hand. But they cannot satisfy us. In substance, the increase we have achieved in food output has largely been used to cover the demand connected with the growth of the population. . . We have neither the moral nor the political right to tolerate the delay in solving the food problem.

Experience shows that the shortest and most dependable way of achieving the desired output of food is broad introduction everywhere of lease arrangements and other effective forms of organising and stimulating labour. . .

Everything depends on how quickly we can arouse people's interest and promote the work of contractual and lease collectives, on how broadly we can enlist farmers in this process and make them true masters on the farm.

Difficulties arose largely due to the tenacity of managerial stereotypes, *to a striving to conserve* familiar command methods of economic management, to the resistance of a part of the managerial cadre. . . Indeed, we are running into undisguised attempts at perverting the essence of the reform, at filling the new managerial forms with the old content.

And what is most intolerable is that enterprises are being compelled by means of state orders to manufacture goods that are not *in demand*, compelled for the simple reason that they want to attain the notorious "gross output" targets.

Need I say that this is totally contrary to the sense of the reform, that it amounts to the conservation of management methods that have driven our economy into a dead end.

Enterprises that have been given the right to reward their more efficient workers and cut down on the incomes of those that are lazy, wasteful or idle, are using it much too timidly in fear of offending anyone.

To put it plainly, the reform will not work, will not yield the results we expect, if it does not affect the personal interests of literally every person.

Many things now depend on price reform. Without a pricing reform we shall not be able to create normal relations in the economy and to secure a properly grounded assessment of the costs and results of production, to secure an equivalent exchange of goods and services, to stimulate scientific and technological progress, to encourage savings of resources, to normalise the situation on the market, and to ensure a fair division of labour.

> 'For much too long uniformity, monotonous conformity and mediocrity were made out to be the hallmarks of progress.'

The price reform cannot fail to affect retail prices. Today the retail price of many food products, notably that of meat and milk, is considerably lower than the actual cost of producing them, lower than the state's procurement price. The state is compelled to cover this difference in the form of a subsidy. That is not a normal situation. It undermines the incentive for producing these products, and gives rise to a wasteful attitude, especially towards bread.

We know all this perfectly well, comrades. It is absolutely necessary to resolve this problem, no matter how difficult it may be and no matter what doubts and fears it may create at first glance.

Here is our approach: the funds which the state is paying out as subsidies today will be handed over in full to the population as compensation.

It is essential to use the lessons of the first few years of perestroika to work out a strategy for the future. This means first of all that people's needs for quality food products must be satisfied, that the market must offer consumer goods of the desired range and of high quality, that the housing programme must be carried out, and the health service, public education, and culture improved. . .

The central committee expects the conference to endorse this course.

For how long more are we to revolve within the vicious circle of outdated notions and formulas, such as production for the sake of production, and the plan for the sake of the plan?

SCIENCE, CULTURE

Perestroika, the renewal of socialism, is inconceivable without the maximum activation of the intellectual and spiritual potential of society, which is *embodied in science*, education and the whole of culture.

The social status of science and the prestige of scientific work have in recent decades clearly declined. What is needed is to build up a cardinally new national scientific potential, without which there can be no speedy breakthroughs in basic research, and on this basis to put into effect the whole set of programmes that have been drawn up for our socio-economic reorganisation.

There are also quite a number of people who react with annoyance to creative quests and who see mounting diversity as a departure from the principles of socialist art. . . For much too long uniformity, monotonous conformity and mediocrity were made out to be the hallmarks of progress. We still lack the custom to engage in debate, to dissent, to practice free competition.

FOREIGN POLICY

In assessing Soviet foreign policy in the post-war period, we must keep in mind that imperialism, in effect, created an extraordinary situation around us and our allies. The military threat became for us a constant factor and it has not been removed to this day.

But while concentrating enormous funds and attention on the military aspect of countering imperialism, we did not always make use of the political opportunities opened up by the fundamental changes in the world.

What was needed was not just a refinement of foreign policy but its determined reshaping. The new thinking is not a final and consummate doctrine. It is dialectical, which makes possible the constant perfection and development of our policy in keeping with the forward march of real life.

We have begun to base our contacts in relations between states on dialogue; *in the sphere of disarmament* on a readiness to accept far-reaching reciprocal verification.

POLITICAL REFORM

It is a fact, and we have to admit this today, that at a certain stage the political system. . . underwent serious deformations. . . This made possible the omnipotence of Stalin and his entourage, and the wave of *repressions and lawlessness*.

> 'For how long more are we to revolve within the vicious circle of outdated notions and formulas, such as production for production's sake?'

With state structures bureaucratised and the people's social creativity impaired, society became accustomed to single-option and static thinking.

It is this ossified system of government, with its command and pressure system, that the fundamental problems of perestroika are up against today.

We are learning democracy and glasnost, learning to argue and conduct a debate, to tell one another the truth.

In raising the question of cardinally reforming the political system, we must proceed above all from a clear understanding of which of its qualities have stood the test of time and are needed by us today, and which, on the contrary, have to be reduced to a minimum or overcome completely.

There must be a strict demarcation of the functions of party and state bodies in conformity with Lenin's conception of the Communist Party as the political vanguard of society and the role of the Soviet state as an instrument of government by the people.

HUMAN RIGHTS

Human rights in our society are not a gift from the state or a boon from someone. They are an inalienable characteristic of socialism, its achievement. . .

It is important for us to understand, comrades, that it is a person's standing in society, the rights conferred on him and his duties that ultimately determine his activity in society, at work, in political affairs.

Perestroika has brought the question of people's political rights into sharp focus. Their implementation was affected particularly painfully by the command methods of administration and associated restriction of democracy. All this retarded and inhibited the process of overcoming the people's alienation from government and from politics.

I would like to dwell particularly on the political freedoms that enable a person to express his opinion on any matter. The implementation of these freedoms is a guarantee that any problem of *public interest will be* discussed from every angle.

GOVERNMENT

We are facing the pressing task of restoring the full authority of the Soviets of People's Deputies, and half-measures just won't do. The CPSU Central Committee is submitting the following proposals.

First, that representation of *working people in the top* echelon of government be extended considerably. With this end in view, direct representation of the civic organisations incorporated into our political system should be added to the currently existing territorial representation of the entire population. All these deputies, elected for a five-year term, would comprise a new representative supreme government body — the Congress of the USSR People's Deputies.

The Congress. . . would elect from its members a relatively small — say 400- to 450-strong bicameral Supreme Soviet, which would consider and decide all legislative, administrative and monitoring questions.

Second, the work of the chambers of the USSR Supreme Soviet should be stepped up and their current anonymity ended.

We also believe that the government structure at top level should comprise a Presidium which would be guided in its work by the President.

ETHNIC RELATIONS

Since this subject is extremely important and topical, we should discuss it right now, at this conference. The important thing is to see the actual picture which includes both our obvious achievements and obvious shortcomings.

We have recently seen for ourselves how tangled the problems of inter-ethnic relations can become. This means that we must do our utmost to protect and nurture our peoples' brotherhood and friendship. To try to set people of different ethnic backgrounds against each other, to sow mistrust and hostility between them is a grave offence against one's own people and socialist society, let alone against the law.

Our population is highly mobile, many people live outside their territorial ethnic entities, and some ethnic groups have no territorial autonomy. Certain collisions may occur, and they can only be settled in one way — by ensuring, within the existing state structure of our Union — the greatest possible accommodation of the interests of each nation and nationality and of the entire community of the Soviet Union's peoples.

LAW

Perestroika has thrown into particularly bold relief the conservatism of our legal system which is so far largely oriented not on democratic or economic, *but on command-style methods of* administration and government with their numerous bans and petty regimentation.

The public demands stiffer penalties for cases of contempt of court. . . strict observance of the democratic principles of justice such as the competitiveness and equality of the parties, glasnost, openness, the ruling out of prejudice or bias against the defendant and absolutely no departure from the principle of innocent until proven guilty."

PARTY REFORM

We have defined the functions of the *CPSU* as the political vanguard. But to perform these functions, the Party should remodel its activity, the style, methods and forms of its work — from the grassroots level up to the Central Committee.

The matter is, in the first place, that the principle of democratic centralism, which underlies the structure and activity of the CPSU, was at a certain stage largely replaced by bureaucratic centralism.

The task now is fully to restore in the Party an atmosphere of fidelity to principle, openness, discussion, criticism and self-criticism, unconditional personal responsibility and efficiency.

The prestige of elective bodies as full-fledged representatives of Communists should be restored. The secretaries, bureaux, and especially the Party apparatus should be under the control of the elective Party body.

Openness, a critical approach and efficiency should reign in all elective bodies. This applies also to the activity of the Party apparatus, which should have no unjustified secrecy in its work.

FUTURE OF SOCIALISM

Today, reacting to the restoration of truth and justice, to the renunciation of everything that deformed socialism and practice, to the destruction of stereotypes and dogmas, some people maintain that this is eroding the principles and pillars of socialism, and maligning its history. We cannot agree with this, comrades. Most emphatically not.

We have no right to permit perestroika to founder on the rocks of dogmatism and conservatism, on anyone's prejudies and personal ambitions. What is at stake is the country's future, the future of socialism. . .

I want to say, categorically, here at the conference, that we shall continue to develop all truly socialist values, and firmly eliminate everything that distorts revolutionary theory and the image of socialism. . .

Gorbachev: voting for a brave new world

Mixed reaction from E Europe

BY LESLIE COLITT IN EAST BERLIN

THE WARSAW PACT's westernmost outpost, orthodox East Germany, signalled a cool reaction, through its official media, to the reforms outlined yesterday by Mr Gorbachev, while Hungary welcomed the Soviet leader's ideas on liberalisation.

In between these two extremes, officials in Czechoslovakia — which launched economic but not political reforms — cautiously approved of his aim to provide greater legal security for citizens. But the Czechoslovaks were sceptical whether Mr Gorbachev would be able to achieve his economic goals.

East German television carried Mr Gorbachev's speech live but it refrained from commentary. The party newspaper Neues Deutschland planned to carry his address in today's edition but would abstain from commenting, an editor said.

ADN, the East German news agency, played down Mr Gorbachev's proposals to democratise the Soviet system. Instead, it stressed his criticism of Soviet economic performance and the difficulties in raising living standards. East Germany says its steady economic growth was achieved with highly centralised planning and minute controls. The East German leader, Mr Erich Honecker, has refused to *emulate the Soviet reforms* which he regards as potentially destabilising on the front line of socialism.

Meanwhile enthusiastic Hungarian officials noted that Mr Gorbachev's proposals for socialist pluralism within the one-party system were "precisely" what the Budapest leadership was advocating to reform the Stalinist system.

By contrast, state radio in Romania, *which flatly rejects the* Soviet reforms, failed even to mention the Soviet party conference at which Mr Gorbachev spoke.

The most interesting reaction, perhaps, was that of a Soviet official in East Berlin who spoke privately that the tragedy was that Mr Gorbachev's reform proposals might have come too late.

Most Soviet citizens were a product of Stalinist rule. "The problem *with perestroika is that the* Russian people are not ready for it," he suggested. A generation which had grown up under Stalin and Brezhnev simply could not grasp Mr Gorbachev's ideas.

"We are a proud, nationalist people who are in love with the vastness and greatness of Russia. But we have no work ethic, no products to strive for and no incentives," he noted.

But even more important, the Soviet official said, Russians had an "unbroken history" of worshipping their leaders as infallible gods. This was the opposite of what was needed in order to *create a more democratic society.*

"I am afraid the biggest threat to perestroika does not come from the opponents whom Gorbachev always mentions but from widespread apathy. I fear the reforms will end inconclusively and Gorbachev will tragically slide back into the habits of our past rulers."

Armenian hopes on Nagorno Karabakh rebuffed

By Charles Hodgson in Moscow

MR GORBACHEV yesterday ruled out boundary changes as a solution to ethnic tensions such as those that have flared in Nagorno Karabakh in Transcaucasia.

He told the party conference that people who encouraged ethnic divisions were flouting the law and hampering democracy and his reform programme.

Mr Gorbachev's remarks, the clearest indication yet that the Kremlin will resist calls to transfer Nagorno Karabakh *from Azerbaijan to* neighbouring Armenia, came amid reports that strikes and unrest were continuing in the disputed region.

The party newspaper Pravda reported that only 50 per cent of workers in the region — mostly peopled by Armenians — had heeded the call to end their month-long general strike called to back demands for unification with Armenia.

Mr Gorbachev said that in the "highly mobile" Soviet Union, many people lived outside their ethnic territories and some ethnic groups had no territorial autonomy.

"Collisions may occur," he said, "and they can only be settled . . . . by ensuring within the existing state structure of the Soviet Union, the greatest possible accommodation of the interests of each nation and nationality *and of the entire* (Soviet) community.

"Any other approach is simply impossible and any attempt at moving in a different direction would lead to disaster," he warned.

Mr Gorbachev conceded that the authorities had been guilty of "occasional failure to dovetail the interests of individual nations and of the Soviet Union as a whole".

But he called on nationalities to live in harmony. Internationalisation of the economy and society within the country was inevitable, Mr Gorbachev said. "Any obsession with national isolation can only lead to economic and cultural impoverishment."

He reminded delegates that a special plenary session of the ruling central committee to discuss ethnic tensions would be held shortly.

The Soviet leader's remarks were expected to cause deep disappointment among Armenian nationalists, many of whom have looked on him as broadly sympathetic to their demands. Hundreds of thousands of people have taken part in nationalist demonstrations in Yerevan, the Armenian capital, in which posters of Mr Gorbachev have been prominently displayed.

● A newspaper in the Azerbaijani capital of Baku said that 200,000 Armenians living in the city *had criticised* the Armenians of Nagorno Karabakh as extremists and chauvinists, and appealed for the restoration of order in the region, Reuter reports from Moscow.

The appeal, published in the daily Bakinskiy Rabochiy, said the authorities should bring to justice "those people who are guilty of the situation" in Nagorno Karabakh.

The document appeared in the June 21 edition of the newspaper, which reached Moscow yesterday.

Analysts said the appeal may have reflected feelings of vulnerability by the Armenian minority in Baku.

Most of the deaths in ethnic clashes this year occurred in Sumgait, a coastal city just north of Baku.

OTHER EUROPEAN NEWS

Beaming Kohl glories in summit euphoria

BY DAVID MARSH IN HANOVER

MR HELMUT KOHL, the West German chancellor, beaming his way yesterday through innumerable television interviews, has seized on the Hanover summit with infectious relish.

Like Mr Jacques Delors, the EC Commission president, *Mr Kohl* says Europe has gained a new lease of life after all the quarrels of the past few years.

Unlike Mr Delors, who in Brussels these days is less concerned *about national politicking in* France, Mr Kohl has eminent domestic political reasons for playing the European card.

Opinion polls show Mr Kohl's standing in West Germany, and that of his Christian Democratic Party, falling steadily over the *past 12 months of bickering* in his coalition government. A latest survey from the Emnid research institute this week indicated that conservative support had fallen to only 41 per cent of *the electorate*, below the score of the opposition Social Democratic Party, *for the first time since* 1973.

At a time like this, Mr Kohl has been grasping at the chance to portray European-mindedness and Community harmony on the TV screens — even if the summit only lasts two days.

"It is a distraction," said one seasoned French diplomat in Hanover. "It is good that politicians have troubles at home — it makes them turn more towards Europe."

Whatever the reasons, Mr Kohl yesterday found it hard to keep his euphoria under control. Mr Hans-Dietrich Genscher, the Foreign Minister and most ebulliently European of the government team, was also in Hanover but was put firmly in the shade.

Mr Kohl admits that not so long ago the extent of EC disutes made him doubtful whether the Community was really worthwhile.

Only a few months ago, he was voicing deep public misgivings about the French proposals for a European central bank.

Now he believes some form of monetary union is 90 per cent certain by the end of the century — although he has still not made up his mind whether a fully-fledged European central bank would be a good thing.

Community leaders warn South Africa over the Sharpeville six

BY WILLIAM DAWKINS IN HANOVER

EUROPEAN Community leaders yesterday fired a fresh warning shot to South Africa over its human rights record and pleaded for mercy for the Sharpeville six.

They told Pretoria *that* diplomatic relations with the EC risked being worsened and urged "that all legal options available", be used to stop the execution of the six blacks sentenced for allegedly murdering an official.

That included, if necessary, a grant of clemency for the six from President Botha, said a statement agreed at the European summit.

However, the announcement stopped short of threatening to scale down the number of EC diplomats in Pretoria or the number of South African officials allowed into Europe, possible moves which are being studied by official working groups.

The warning came after intense debate *between Britain*, which has always urged a more cautious line on South Africa than its EC partners and France, which wanted a toughly worded statement and demanded that the draft prepared earlier by foreign ministers be rewritten.

"I found it to be insufficient," said Mr Francois Mitterrand, the French President, who eventually accepted a compromise drawn up by Mr Ruud Lubbers, the Dutch Prime Minister.

Sir Geoffrey Howe, UK Foreign Secretary, said: "Our concern was as always to ensure that our action would promote the objectives we had in mind . . . to get clemency for the Sharpeville six."

Community leaders also warned that a draft South African bill to clamp down on foreign cash contributions to anti-apartheid organisations "would place additional strain on the relations of the Twelve with South Africa".

Better working conditions sought in EC

By William Dawkins

EUROPEAN Community governments yesterday called for new measures to improve conditions for the EC workforce — against strong reservations from the UK that this might hold up business deregulation.

They called for tougher EC rules on health and safety at the workplace, better access to vocational training for the *Community's* workers and asked the European Commission to step up consultations with trade unions and employers on the EC's plans to scrap all internal trade barriers by 1992.

"The internal market must be conceived in such a manner as to benefit all our people," said the final communique from the European Summit. It provided a lift to the ambitions of Mr Jacques Delors, Commission President, to build more social policy into the mainly business oriented scheme to create a single EC market.

Brussels rules on share stakes likely to be passed

BY TIM DICKSON IN BRUSSELS

LEGISLATION to oblige investors throughout the European Community to disclose share stakes in public companies of more than 10 per cent looks set to be approved at a meeting in Brussels next month.

The proposal — which lays down "minimum standards" but goes less far than current rules applied in some countries, such as France and the UK — is widely expected to attract enough support from member-states at the forthcoming Council of EC Economic and Finance Ministers to overcome staunch objections from West Germany.

The issue of "transparence" in share dealings has been given added significance by the recent wave of European takeovers.

The proposed EC directive, however, was put forward in 1985 and far from being designed as an "anti-raider" device was prompted by the need for greater shareholder protection in the more integrated financial services market envisaged for 1992.

Under the plans to be put to the "Ecofin" meeting of July 11, shareholders will have to disclose a 10 per cent stake to the company, which will then have to pass it on to the relevant regulatory authority and make the *information public within* seven days.

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Italian bankers air grievances at financial policies

BY JOHN WYLES IN ROME

TENSIONS between Italy's government, the central bank and leading bankers over banking regulation and economic and financial policies surfaced yesterday in speeches to the annual meeting of the Italian Banking Association.

The rebukes were issued in the quiet, semi-coded language appropriate for the occasion, but they revealed that the Bank of Italy is increasingly worried that the government has not implemented a single measure in pursuit of its strategy for reducing the public deficit, while the banking industry believes it has been injured by the marketing of public debt and the slow pace of change in its regulatory framework.

Mr Carlo Azeglio Ciampi, Bank of Italy governor, quietly censured the government for the recent teachers' pay deal which threatens to trigger inflationary demands from other public sector workers. He urged the adoption of a broadly-based incomes policy and repeated his call, first delivered in May, for action to damp down domestic demand which, he implied, was pushing the economy towards a dangerous flirtation with higher inflation.

In response, Mr Giuliano Amato, the Treasury Minister, agreed that "there is a clear need" to implement the measures already announced which are designed to cut the 1988 budget deficit from L122,000bn (£53bn) to L115,000bn, and promised that action would be taken by July 15.

He also announced that three-month Treasury bills would no longer be issued with a base price attached. Prices in future will be determined by market demand. This should make bank interest rates more responsive to monetary policy, he said.

Mr Piero Barucci, president of the Bankers' Association, complained that bank profits last year were badly hit by plunging bond prices caused by the volume and timing of public debt issues. Higher interest rates were sucking savings out of bank deposits into government issues, and as a result the banks were short of liquidity and hard pressed to maintain loans to small and medium-sized businesses.

Mr Barucci drew a picture of a banking system labouring under structural handicaps which acknowledged the need to raise efficiency and to cut costs, particularly on staffing, so as to be able to compete in an increasingly open European financial system. Declaring that last year had been "a year to forget", he complained about the "burdensome regime" of reserve requirements.

Governor Ciampi indicated later that these would be lightened from the beginning of next year by a more flexible operation aimed at providing "more elastic liquidity margins". He argued that the banks' competitiveness would be increased by the steady liberalisation of capital movements.

In the more competitive international markets now in prospect in Europe, he urged the banks to be less concerned with size and more with capital strength, managerial vitality, generating income and offering services which are competitive on price and quality.

Draft anti-trust bill ready for parliament

BY JOHN WYLES

THE Italian government's long-awaited anti-trust legislative proposals are expected to be sent to parliament within the next 10 days following the completion of a draft bill containing 29 articles by the Ministry for Industry.

The version prepared by the Minister, Mr Adolfo Battaglia, is something of a synthesis of opinions produced by a Senate committee and a special Ministerial committee of experts. As Italy's first possible piece of national legislation in this area, it is designed to dovetail with the Treaty of Rome's anti-trust provisions and to regulate mergers, takeovers and joint ventures involving both public and private companies within a purely national framework.

The proposal's key concept is that of abuse of dominant position leading to a distortion of competition, for which companies can be fined up to 3 per cent of their turnover. All mergers, acquisitions and joint ventures leading to the creation of a unit with annual sales above L500bn (£215m) must be notified in advance, as must the takeover of a company with annual sales above L50bn. However, prior notification is only obligatory if the new unit has a particular market share above 40 per cent.

According to Mr Battaglia, the application of controls is meant to be permissive, given that concentration is an "inevitable component of the process of industrial restructuring in the face of competitive pressures and the new dimensions of the market".

This will mean that mergers can be assumed to be authorised unless the administering authority opposes them within four months of opening an investigation – which must be within 30 days of notification.

Responsibility for administering the law will be given to a "Competition Guarantee Authority" whose five members will be of proven independence and experience and nominated by the presidents of the Senate and the lower house of parliament, the Camera.

Poll boost for Premier

ITALIAN Socialists yesterday outstripped the Communists for the first time in a regional poll, but the Christian Democrats (DC) strengthened their 40-year role as the nation's dominant political force, Reuters reports from Rome.

The final combined results, from the two northern regions of Friuli Venezia-Giulia and Valle d'Aosta, were seen as a clear acclamation of Mr Circiao De Mita's two-month- old premiership at the head of a five-way coalition.

The two-day poll, involving a million voters, showed the his Christian Democrats had gained two points to reach 35.7 per cent.

In the larger Friuli Venezia-Giulia region, regarded as the more significant of the two polls, the Socialists of former Prime Minister Bettino Craxi increased their vote by 6.4 per cent to reach 17.7 per cent.

The Communists slumped four points to 17.5 per cent in Friuli Venezia-Giulia where in the last local elections in 1983 they had recorded a 10 per cent lead over the Socialists.

Combined final results from the two regions showed the Socialists on 16.9 per cent and third place overall, just behind the Communists on 17.2 per cent.

Danish warship protest

BY HILARY BARNES IN COPENHAGEN

DENMARK'S opposition Social Democratic Party plans to use US independence celebrations on July 4 to emphasise that if it returns to power it will tell US and British ships to stay away unless they give assurances that they do not carry nuclear weapons.

The party's leaders will send a signed letter to the captain of the US destroyer Conyngham – due to visit the Jutland port of Aalborg on July 4 – explaining that Denmark does not permit nuclear weapons on its territories.

This is the latest twist in events which led to an election on May 10 after a centre-left majority in the Folketing passed a resolution calling on the government to inform visiting warships that nuclear weapons are not allowed on Danish territory.

The US and UK regarded the resolution as inconsistent with their policy of neither confirming nor denying the presence of nuclear weapons on their ships.

Britain cancelled naval visits to Denmark until the post-election government clarified policy at the beginning of this month.

Portuguese may get land back

By Diana Smith in Lisbon

PORTUGAL'S parliament yesterday began debating a package aimed at reversing or compensating for the collectivization of 1m hectares of farmland following the Communist-led takeover 13 years ago.

Hundreds of supporters of the dwindling collective farm movement marched to Parliament in protest.

If passed, the law would restore a proportion of the land to former owners. A further part may be formally taken over by the state with compensation based on 1975 prices. After the revolutionary clauses are excised from the 1976 constitution later this year the State may decide to sell off much of the land it holds.

The proposals please neither collectivists overtaken by efforts to modernise Portugal's backward agriculture, nor the Confederation of Portuguese Farmers.

Collectivists claim new laws will destroy all but a handful of their farms and return them to absentee landlords of the old regime. The Farmers' Confederation claims compensation based on 1975 prices is miserly and unconstitutional.

US defence attaché in Athens killed by car-bomb blast

BY ANDRIANA IERODIACONOU IN ATHENS

THE US Defence and Naval Attaché in Athens, Captain William Edward Nordeen, was assassinated yesterday. Capt Nordeen, 51, was killed minutes after driving off to work at 8am when a powerful explosives charge concealed in a parked car was detonated by remote control as he drew up alongside, just 50 metres from his home in the northern Athens suburb of Kefalari.

Capt Nordeen was serving the last few days of a three-year tour in Greece. No organisation immediately claimed responsibility for the assassination, which was condemned by both Athens and Washington.

However, there was a widespread impression that the killing bore the stamp of November 17, a shadowy terrorist group whose track record includes the shooting in 1975 of Mr Richard Welch, the US Central Intelligence Agency Athens station chief, and in 1983 of US Navy Captain George Tsantes, serving with JUSMAG, a military assistance group.

The Nordeen assassination was strongly reminiscent of a 1985 attack by November 17 against a Greek police bus, which also used a parked car filled with explosives. The past 13 years have yielded no firm clue as to the identity of November 17's members. The Greek Public Order Ministry admitted yesterday that it was in the dark.

The killing comes at a delicate juncture in negotiations for the renewal of the 1983-88 agreement governing the operation of the four US military bases in Greece. Athens is expected to send Washington a letter formally renouncing the agreement

Negotiations will then continue, but under the pressure of the mid-1990 deadline set for the dismantling of the bases.

Greece and the US have also recently been tussling over Washington's request for the extradition of a Palestinian arrested last month, who is wanted in connection with a 1982 explosion aboard a PanAmerican Airways aircraft over Hawaii. The Greek Justice Ministry said yesterday the request was being examined.

Europeans cautioned on liberalisation

BY TERRY DODSWORTH

FT CONFERENCE

Tele-communications

THE LARGE European trade deficit in telecommunications equipment means that foreign access to the market will have to be linked closely in future to multilateral or bilateral concessions, Mr Michel Carpentier, Head of the European Commission's Telecommunications Directorate, said yesterday.

Mr Carpentier was speaking at the Financial Times Conference on Telecommunications and the European Business Market, where he outlined the progress the Community had made over the last year towards the deregulation of the internal telecommunications market.

He stressed that Europe was committed to more liberal market policies and the stimulation of a competitive industrial structure within the region. But, he added, the Community also had to take account of the trade effect of domestic liberalistion in the market for goods and services.

Telecommunication equipment imports from Japan, particularly in the UK and West Germany, had been rising very rapidly, reaching almost Ecu 1bn in 1987, whereas European exports to Japan amounted to only Ecu 40m in the same period. As a result, the Community would continue to press the Japanese Government for an improvement in the situation, Mr Carpentier said.

"The Community cannot afford to make major unilateral trade concessions as a result of domestic integration."

The impact of liberalisation was also underscored by Mr Ake Lundquist, President of Ericsson Radio Systems, who said that market driven policies had been important in the development of the car telephone industry in Scandinavia and the UK. London, he argued, had achieved the highest traffic density for cellular mobile systems in the world, partly because of the high level of business activity, but also due to the competitive framework of the British car telephone market.

Europe was in a strong position to take advantage of the development of the mobile telephone market, which was likely to become one of the main elements in the telecommunications systems of the future.

The size of the population in Europe, the experience gained in the first generation of cellular mobile technology, and engineering expertise in network systems would all be of benefit to the region. But, he added, Europe faced a problem because of its weakness in component manufacturing, and there were dangers that government policies would not have sufficient market orientation in future. There was a threat that restrictive standards-setting would throttle market expansion.

Additional support for open market policies came from Mr Gordon Owen, joint managing director of Cable & Wireless. Competition, he said, would drive down prices on telecommunications traffic across the Atlantic, where Cable & Wireless was due to instal the first private fibre optic cable next year. It would then be possible to send a facsimile message for printing on an A4 sheet of paper for 15p, much less than the price of a letter.

The introduction of the C & W cable, he added, would mean an over-supply of capacity on the transatlantic route. But this would rapidly open up new markets in a variety of fields, such as facsimile and video telephones, that would soon use up the available supply of transmission time.

Iran on the defensive: Financial Times writers look at how the Tehran leadership is coping with setbacks on the battlefield

A war machine split into two competing camps

BY ANDREW GOWERS AND SCHEHERAZADE DANESHKU

IN ASSUMING full responsibility for Iran's war effort as acting Commander-in-Chief, Hojatoleslam Ali Akbar Hashemi Rafsanjani has taken on the biggest political and organisational challenge of his career to date.

The parliamentary Speaker, appointed to the post by Ayatollah Ruhollah Khomeini earlier this month, has a mandate to establish a unified general command to co-ordinate the work of the various arms of the military, to rationalise Iran's growing indigenous military industries, to ensure more efficient use of resources and to rally public support for the armed forces.

But he inherits a war machine deeply split between conventional and revolutionary forces, and hungry for equipment and spare parts.

The structural division of the military dates back to the revolution itself. The authorities of the new Islamic republic regarded the conventional army with the deepest suspicion in view of its affiliation to the Shah's regime. They subjected it to a series of damaging purges which by 1986 had removed some 23,000 men including almost 17,000 officers, according to a study of the Iranian military published last year by the Rand Corporation.

At the same time, a number of parallel revolutionary forces grew up, of which the most prominent was the Islamic Revolution Guard Corps (or *Pasdaran*). The IRGC was also in charge of another force, the Sepah-e Basij (Mobilisation Army), which provided the manpower for Iran's notorious "human wave" attacks on Iraqi lines between 1982 and 1984.

Friction between the army and the IRGC has been evident ever since the latter's establishment. It has provided the revolutionary zeal, while the regular army has contributed the training and logistical skills essential to many of Iran's land victories, such as the 1986 capture of the Fao peninsula.

The rivalry has important political dimensions, since the IRGC – which with a membership in excess of 350,000 is larger than the regular army – is a significant power centre in its own right.

It has adversely affected numerous aspects of the war effort. The two forces have competed for precious equipment; each now has its own network of military industries; and co-operation between them in supply operations has not been seamless. The IRGC, in its ideological fervour, has on occasion been reluctant to listen to the advice of the professional military. The army, too, has been subject to intense political interference from clergymen with a limited understanding of military tactics.

IRAN'S ARMED FORCES

Army	305,000
IRGC (approx)	350,000
Navy	14,500
Air force	35,000

Term of service : 24 months (24 months before Jan 88)

Source: International Institute for Strategic Studies, other estimates

Some military observers believe the conflict may have come to a head over the much-heralded spring offensive which never materialised this year. Instead, Iran concentrated on small-scale offensives, particularly in the north, while suffering serious setbacks in the south. *The fact that the IRGC has been geared principally for attack rather than defence is thought to have contributed to the defeats.*

Recriminations for this year's problems have already begun. They led directly to the replacement of the armed forces chief of staff, Brigadier Esmail Sohrabi, who was not disgraced but sent as an adviser to the Supreme Defence Council, the body responsible for conduct of the war.

The position of Mohsen Reza'i, the Commander of the Revolutionary Guards, appears uncertain. He publicly admitted to having made "mistakes" after the recapture of Fao in April.

For some Iranian leaders, the *answer to the recent difficulties* looks simple: merge the army and the *Pasdaran*. In a speech after Mr Rafsanjani's appointment, Ayatollah Hossein Ali Montazeri, Ayatollah Khomeini's heir-apparent, suggested that the lack of a single military force had caused the war to drag on.

"Do you know why the war has lasted so long, despite the fact that our population is three times Iraq's?" he asked. "Our problem was that we lacked planning, co-ordination and a single command."

Mr Rafsanjani, who has significant support within the IRGC but also defends the interests of the regular army, has been more circumspect, saying that "it is not important for us to merge the two organisations now". Some other leaders, such as President Ali Khamenei, have come out openly against a merger.

Certainly, merging the two organisations would raise enormous problems, not least concerning the question of which should take over which. As Mr Rafsanjani points out, the difficulties would be aggravated by the differences between the two bodies – one (the army) an "old-established and classic organisation", the other "revolutionary and self-motivated". He has, however, called for a salary structure and an entrance requirement for the IRGC, which could be a first step towards an assimilation of the army into the *Pasdaran*.

Need felt for a breathing space as morale slips

BY ANDREW GOWERS, MIDDLE EAST EDITOR

AT THE beginning of this month, Ayatollah Ruhollah Khomeini, ailing spiritual leader of Iran's troubled revolution, appealed to his followers to summon up reserves of "revolutionary patience and endurance" in pursuing the Gulf war. They could be certain, he said, that "victory belongs to those who are patient".

It seemed a curiously subdued response to the events of the past two months, in which Iran has experienced the worst series of setbacks since it was invaded by Iraq in September 1980. The final expulsion of Iranian forces from Iraq's southern soil at the weekend set the seal on a string of military failures which started with the loss of the Fao peninsula in April. Never has its war effort seemed so listless or its leadership so much on the defensive.

President Saddam Hussein of Iraq is already crowing about "final victory" being within reach. Even in the north, where Iranian forces are still holding sizeable chunks of mountainous Kurdistan in an effort to offset the reverses in the south, the Iraqis appear to have been more effective in recent weeks, and they are supporting increased activity inside Iran by the National Liberation Army, a left-wing Iranian opposition group. Iran's only military response so far has been a limited offensive designed to prevent the Iraqis digging in around the south-eastern border town of Shalamcheh, in which the Iranians claim to have inflicted heavy casualties.

The new-found assertiveness of Iraqi forces has clearly caught Iran badly off guard. It has left the revolutionary regime without significant territorial bargaining chips in any eventual negotiation to end the eight-year conflict, and without a plausible military strategy to advance the war on the ground.

The setbacks also coincide with a general weakening of political confidence in Iran, amid reports of increasing war-weariness among the population and suggestions from US intelligence that Ayatollah Khomeini is mortally ill with liver cancer.

The apparent loss of nerve is significant because it was precisely in the morale department that Iran had been considered to have the edge over Iraq until this year. "Faced with Iraq's superior firepower, Iran's comparative advantage up to now has been its superior commitment to the war," observes Mr Shahram Chubin, a leading Iran-watcher based in Geneva. "Now that it has lost this, the balance has changed."

If morale is indeed waning, it leaves the political dilemma confronting Iranian leaders more sharply defined than ever.

It has been clear for some time, to the more pragmatic politicians at least, that the war is unwinnable in a conventional military sense. Many observers of Iranian affairs believe that since the failure of its last big offensive on the Iraqi port of Basra in early 1987, Iran has been ready to let the fighting wind down to a lower level, while looking for a way out that both saves face and to some extent justifies the horrendous toll of casualties the conflict has already taken – almost certainly upwards of half a million Iranian dead and wounded.

The problem has been that Iraq – fearful that without a formal end to the conflict, such a de-escalation would simply leave the Iranians free to rebuild their war machine at a later stage – will not let them off the hook. Its aim, on the battlefield and in the "war of the cities" which raged at an unprecedented pitch in March, has been to force Iran to submit, either to its own will or to that of *the international community*, as expressed by United Nations Security Council Resolution 598 which called for an immediate end to hostilities almost a year ago.

Iraq insists that this resolution, which allows for the setting-up of an independent inquiry into the origins of the war, after a ceasefire and withdrawal of forces to the international border, should be implemented in strict sequence. Iran has indicated that it cannot accept a formal ceasefire until such an inquiry has done its work, and presumably found in Tehran's favour. The recent military setbacks mean that it is not in a strong position to press its case or to make further concessions.

The Iranians are thus in an unenviable double bind: they can neither pursue the war on their own limited terms nor see any prospect of a settlement which meets their minimum conditions, namely a desire that the original aggressor in the war (President Saddam Hussein) be named and punished.

Their response has thus far been a classic "holding operation" which aims to leave political, diplomatic and military options open until a more credible strategy can be evolved:

● On the diplomatic front, Iran has been making fresh efforts to counter its international isolation, especially in Europe. It has resumed full diplomatic relations with France following former Prime Minister Jacques Chirac's hostage deal before the French presidential elections.

It has sent feelers out to Britain, which have borne fruit in the form of a deal on compensation for damage to each other's embassies after the Iranian revolution and a visit by a British parliamentary delegation last week. Mr Ali Akbar Velayati, the Iranian Foreign Minister, has also visited Italy and West Germany.

All this amounts to an attempt to return to the policy of normalising relations with the West which was making some headway in the mid-1980s before being knocked off course by a series of diplomatic rows last year.

Iran's stated objective is to try to persuade European countries to modify their stance on the war, and in particular to take a more accommodating view of Resolution 598.

● Militarily, the Iranians are promising a major reorganisation of their forces under Ali Akbar Hashemi Rafsanjani, the newly-appointed acting commander-in-chief.

The Ayatollah himself said last month that victory would be achieved only on the battlefield and not at the negotiating table. Mr Rafsanjani and other leaders refine the argument by pointing out that Iran has no choice but to try to give its war effort new momentum in view of the poor prospects for an honourable political settlement.

As Mr Mir Hossein Moussavi, the Prime Minister, said in a recent radio interview: "We do not insist on achieving victory through military means and the war. However, we are not very optimistic. What is in our control is the war, so we have planned for its continuation."

● One area in which significant changes may be in prospect is that of domestic economic and social policy. Since the election of a new Majlis (parliament) with a majority of radicals and technocrats last month, speculation has been rife that the Government may press ahead more rapidly with interventionist economic measures placing more emphasis on social justice and the role of the state. Ayatollah Khomeini has come out decisively in favour of such measures, and this was certainly a theme underlined by Mr Rafsanjani when he addressed the new assembly earlier this month.

In April, a bill permitting redistribution of urban land was approved; other measures tightening state control of foreign trade and strengthening labour laws may be in prospect.

The significance of all this for the war effort is that domestic issues of ownership and distribution of resources which had long been stalled pending an expected Iranian victory are now being brought to the fore. Some observers see it as a move to compensate for defeats abroad by trying harder to satisfy revolutionary aspirations at home.

It is far from clear, however, that this will succeed in rallying domestic morale in the short term. In the absence of fresh successes on the battlefield, appeals for patience will not extract the leadership from its present difficulties. And if reports of the Ayatollah's ill health are true, the uncertainty can only intensify in coming months.

Rafsanjani: pragmatic power behind the revolution

BY RICHARD JOHNS

IRAN'S recent war setbacks have placed the spotlight more firmly than ever on Hojatoleslam Ali Akbar Hashemi Rafsanjani, the parliamentary Speaker who was appointed acting Commander-in-Chief of the armed forces earlier this month.

In making the appointment, Ayatollah Ruhollah Khomeini, who is constitutionally in charge of the war effort, has confirmed Mr Rafsanjani as the second most powerful man in the country after himself. In the recent elections to the Majlis (parliament) he was elected almost unopposed with a broad coalition of support, generally defying the labels "radical" or "conservative". Although his relatively lowly clerical rank of *hojatoleslam* means that he cannot assume Ayatollah Khomeini's formal mantle when the revolutionary leader dies, there is little doubt that he will remain at the very centre of power.

Mr Rafsanjani, 57, is an astute, pragmatic man who has been on the inside of Iran's Islamic revolution from the beginning. The son of a successful pistachio nut dealer in the town of Rafsanjan near Kerman, he paradoxically gained some military experience when he and other "troublesome" young men were conscripted into the Shah's Army in 1962 – but released from service when it was found that young officers were coming under their influence.

Rafsanjani: links with Guards

When Khomeini was exiled to the holy city of Najaf in Iraq, Mr Rafsanjani was one of a number of young clerics entrusted by him with continuing the revolutionary mission, and subsequently kept in touch with the patriarch in exile. An excellent orator, he is the author of two books – one on Amir Kabir, a prime minister of Nazreddin Shah in the late 19th century and a prominent reformer, and another about the Palestinian question.

He was a founder-member of the Islamic Republic Party (dissolved last year), was elected Speaker of the Majlis after the first election in 1980 and has held the position ever since. Mr Rafsanjani is credited with playing a crucial role in giving the revolution a sense of direction when it came under serious challenge, not the least with the bombing of the party headquarters which killed Ayatollah Beheshti, the party's leader.

He has always been the foremost patron of the Islamic Revolutionary Guards. His close links with the Guards, or *Pasdaran*, have provided him with one of his principal power bases. Now as acting Commander-in-Chief, he is entrusted with improving co-ordination between them and the regular army. Lack of full co-ordination has proved to be one of the great weaknesses of Iran's military effort.

So what sort of flavour is Mr Rafsanjani likely to impart to Iranian policies in post-Khomeini Iran? The changes are likely to be subtle and may not be immediately obvious.

Mr Rafsanjani has made no bones about his commitment to continuing the war until Iran's aims are achieved. Nor does he oppose the export of revolution. In 1982, for instance, he is said personally to have encouraged Lebanese Shias of the newly formed Islamic Amal, the forerunner of Hizbollah, to adopt more militant policies – which resulted in the car bombings of the US and French military contingents in Beirut.

He would not dream of disowning Hizbollah now, and if the freedom of hostages held by Iran's proteges in Lebanon can be bargained for material benefit, he would not argue against such a trade-off.

The crucial distinction lies in Mr Rafsanjani's pragmatism. He believes export of revolution can and should be pursued, so long as it does not interfere with Iran's basic interests. Thus, he was evidently infuriated by the hijacking of a Kuwait Airways jumbo jet by a group of Shias to the Iranian city of Mashhad in April – an event which occurred just as the regime, virtually friendless in the world, was trying to improve relations with Western countries.

Unlike some of the more extreme elements in Iran's revolutionary Government, Mr Rafsanjani also believes that Iran can gain from dealing with foreign powers. The clearest evidence for this emerged as a result of Washington's attempt to swap arms for hostages in the Iran-Contra affair. Mr Rafsanjani, although closely involved in the secret dealings with Washington, triumphantly survived attempts by Mr Mehdi Hashemi, the man in charge of Iran's terrorist activities until his execution in September last year, to discredit him for it.

Mr Rafsanjani would have felt no shame at having supped with the "Great Satan" at a decent distance. For him, ends justify means. Iran wanted Hawk and TOW missiles. Its Islamic Revolution disciples in Lebanon held hostages. He put out a "feeler" to the effect that "the Americans knew what had to be done to improve relations", said a CIA report in the summer of 1986 quoted by the Tower Commission last year.

He may well have also been a prime mover in recent Iranian attempts to reopen a dialogue with other Western nations in the light of Tehran's international isolation.

The other subject on which Mr Rafsanjani has marked out a distinctive stance is the economy. He evidently sees this as a crucial issue now an increasingly war-weary Iran – where open criticism of the continuation of the conflict has surfaced – has lost the initiative on the battlefront. He appears to favour a greater concentration on domestic policies to compensate.

Too much is made of alleged rivalry between Mr Rafsanjani and other Iranian leaders, in the opinion of veteran Iran-watchers. It is true that Ayatollah Hussein Ali Montazeri, Ayatollah Khomeini's chosen successor as spiritual leader, publicly criticised his decision to stand again as Majlis Speaker after he was appointed commander-in-chief this month. *But although the two men are* not close collaborators, the former is a man of lofty principle – is not in any way a politician.

Despite speculation by exiled Iranian commentators to the contrary, Mr Rafsanjani still appears to be on at least reasonable terms with Ali Akbar Mohtashami, the Minister of the Interior and former Ambassador to Damascus, and with Mr Ahmed Khomeini, son of the spiritual leader.

It is generally assumed that Mr Rafsanjani will be the chief power-broker when the revolution's leader dies. However, with the prospects of victory having faded almost to oblivion, he could prove to be a scapegoat if an "honourable" end to the conflict consistent with the regime's oft-stated terms is not achieved. Conversely, as a strong leader of consensus he could be the only man with the strength to find a peace formula and gain acceptance for it.

Japanese defence minister to visit SE Asia

BY STEFAN WAGSTYL IN TOKYO

THE HEAD of the Japanese Defence Agency is leaving for Indonesia and Singapore tomorrow in the first official visit to South-east Asia by a Japanese defence minister since the Second World War.

Mr Tsutomu Kawara, the agency's director-general and a Cabinet minister, is going on a mission which reflects Japan's willingness to play an increased political role in the East Asian region.

According to Defence Agency officials, the visit will be of symbolic significance. Mr Kawara would seek to reassure Indonesians and Singaporeans that Japan was not going "to repeat what happened in the Second World War".

In Indonesia, Mr Kawara plans to visit a monument to Indonesian war dead. It was not clear yesterday whether he would do the same in Singapore.

Officials say the main purpose of the mission is to reassure Indonesia and Singapore, and through them other members of the Association of South-East Asian Nations, that they have no reason to be alarmed by recent increases in the Japanese defence budget.

Spending is to rise by 5.2 per cent in the current financial year which began in April to Y3,730bn (£16.7bn), making Japan the third largest spender on defence among Western countries. But Mr Kawara is expected to argue that since rankings are drawn up on a dollar basis, Japan's advance in the table is largely due to the yen's appreciation.

Defence Agency officials also stress that Japan has absolutely no intention of increasing the field of its naval operations beyond its self-imposed limit of *1,000 nautical miles off Japan*. In particular, Mr Kawara is expected to refute suggestions that Japan wants to play a part in defending the strategic Malacca Strait.

Officials say potential areas for co-operation are limited. Japan's laws prevent it from exporting *military hardware. Contacts will* be kept to exchanges of staff college personnel.

UK businessman doubts Iran will free him soon

By Our Foreign Staff

MR ROGER COOPER, the *British* businessman who has been held in Tehran's Evin prison for the last two and a half years on suspicion of spying, received a visit from his brother yesterday but expressed scepticism that recent moves to improve Anglo-Iranian relations would necessarily lead to his release.

Mr Paul Cooper said in Tehran that his brother was in good health and spirits.

Roger Cooper was arrested in December 1985 while on a business visit to Tehran. Last week, he *issued a 16-page appeal to the* UK Government through a British parliamentary delegation to take the initiative in improving relations with Iran.

Yesterday, he expressed dissatisfaction with the progress of investigations into his case and *asked his brother to contact judi*cial and political authorities to press for an independent investigation. He said his release seemed no closer now than in early 1986, when his interrogators promised to free him in two to three months.

Courts enter Seoul bank controversy

By Maggie Ford in Seoul

CONCERN is growing among foreign employers in South Korea following the indictment of an Australian banker on a charge of breaking the labour law and the decision by a French embassy worker to *sue the Ambassador for wrongful dismissal*.

The banker, Mr Hugh Spring, of Westpac, has been embroiled in an acrimonious dispute with his staff for several weeks. He has been accused of treating staff in an insulting way, which he denies, and has been criticised in newspaper editorials.

Although the legal charges he faces appear to be minor and unrelated to the current *dispute, other bankers are con*cerned that the decision to involve the courts could stir difficulties with the Government and workers in other branches.

A rally of all foreign bank employees last week, which demanded that Mr Spring be sent home, follows a warning from the Bank of Korea, the central bank, earlier this year that foreign managers could be asked to leave if they were found attempting to evade the Government's business rules.

The embassy row follows the sacking last week of a union leader allegedly for incompetence. The courts, which have generally stayed out of labour *disputes on Government guid*ance that the parties should negotiate, accepted the employee's suit alleging unfair dismissal.

Meanwhile, 4,000 staff at 16 Government think-tanks including the influential Korea Development Institute, which is strongly involved in economic planning, have been on strike for several days.

Israel and US to sign missile defence accord

BY ANDREW WHITLEY IN TEL AVIV

ISRAEL and the US were due to sign a memorandum of under*standing yesterday in Washing*ton on the joint development of an anti-ballistic missile, to counter the threat posed to Israel by the recent proliferation of surface-to-surface missiles among the Arab states.

The agreement on the new weapon – code named Arrow *– was to be signed by visiting* Defence Minister Yitzhak Rabin and Mr Frank Carlucci, the US Defence Secretary. The US is to put up 80 per cent of the estimated initial cost of $400m for the development in Israel of the short-range missiles, due in service in the early 1990s.

Already high, Israeli anxiety at the threat posed by chemical warheads in the hands of Syria and Iraq has been raised still further in recent days by leaks from Washington of reported Syrian interest in acquiring a new, longer-range, and more accurate, Chinese missile, the M-9. This would replace the Soviet-made SS-23 that Moscow has refused to supply Syria since the signing of the Intermediate Nuclear Forces Treaty.

In Jerusalem yesterday Mr Michael Armacost, the US Under-Secretary for political affairs, held discussions with top Foreign Ministry officials, including Mr Shimon Peres, the Foreign Minister, on the missile issue, following Monday's talks with Prime Minister Yitzhak Shamir.

Mr Armacost told Israeli officials that the US shared Jerusalem's concerns about the spread of chemical-tipped missiles in the region and had raised the matter with both China and the Soviet Union.

In public and in private, the Reagan Administration shows *little sign of letting up its criticism* of Israel's handling of the unrest in the occupied territories, and President Ronald Reagan himself was expected *yesterday to reiter*ate his unease over the army's behaviour during a scheduled meeting with the visiting Israeli Defence Minister.

Israeli press reports say Mr Rabin will explore the possibility of a $400m increase in the annual level of US military aid to Israel, currently running at $1.8bn; but held out little hope that this would be forthcoming in the near future, because of US budgetary restraints.

● *Differences between Pales*tinian leaders on Middle East peace talks and recognition of Israel burst into the open yesterday, with one close aide of Mr Yassir Arafat, leader of the Palestine Liberation Organisation, denouncing the dovish proposals of another, Reuter writes from Tunis.

Mr Salah Khalaf, number two to Mr Arafat in the PLO's biggest faction, Fatah, condemned what he called *"vain political gestures"* by Mr Bassam Abu Sharif who had written a newspaper article calling for talks with Israel in the framework of a UN-sponsored peace conference. He also endorsed UN resolutions implying recognition of Israel, as well as those calling for a Palestinian state.

Mr Khalaf denied that Mr Abu Sharif's views represented official PLO policy, saying: "These articles and statements have done enough harm and have begun to form divisions on the Palestinian scene."

Kampuchean leader defiant

By Our Foreign Staff

HENG SAMRIN, the Kampuchean President, told departing Vietnamese troops yesterday there could be no dissolution of his pro-Hanoi government as part of any settlement of the 10-year-old Kampuchean conflict.

Vietnam's announced pull-out of 50,000 troops from Kampuchea this year has been quietly underway since May and 40,000 of them will be home by the weekend, Kampuchean officials said.

Up to 70,000 Vietnamese troops will remain in the country.

The President, in a speech to *some of* the departing Vietnamese military staff and civilian advisers, called their departure an historic turning point.

Foreign *residents* here have seen long convoys of troops, tanks and other heavy military equipment being ferried east along the Mekong River towards Vietnam.

Diplomats in Bangkok said Hanoi appeared to be making good its promise to withdraw, which will leave the army of the Peoples Republic of Kampuchea and its militia to handle Khmer Rouge and other guerrillas. They appear to be convinced that the pull-out is not merely a rotation of troops as has happened in the past.

Heng Samrin said his forces had gained enough battle experience since 1978 to cope with the guerrillas. Vietnam invaded the *country* in 1978 to topple the Khmer Rouge government of Pol Pot, blamed for the deaths of hundreds of thousands of Kampucheans.

Heng Samrin said Phnom Penh was ready to negotiate with the Kampuchean opposition, but not with the leadership of the Khmer Rouge. He said his government categorically rejected the participation of Pol Pot.

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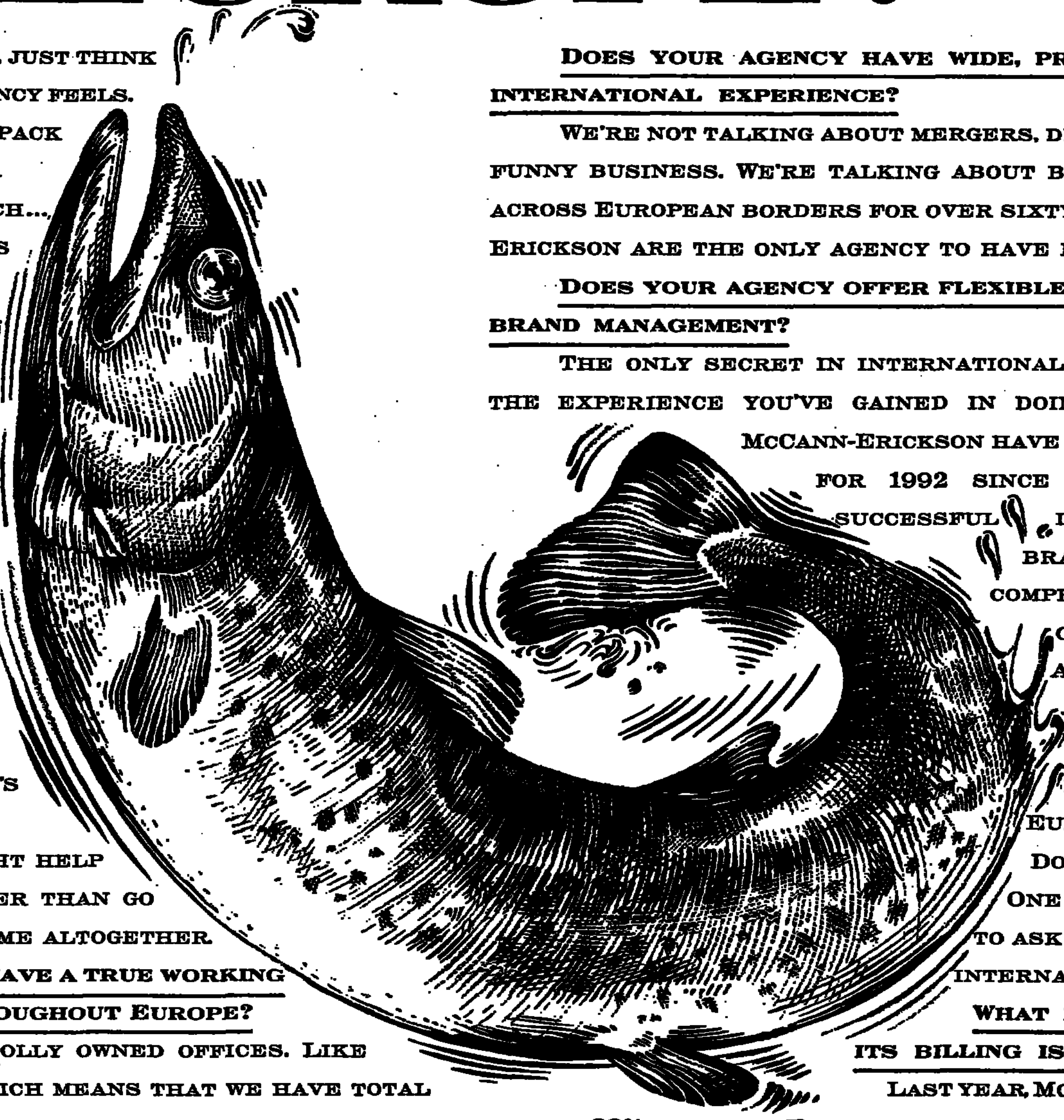

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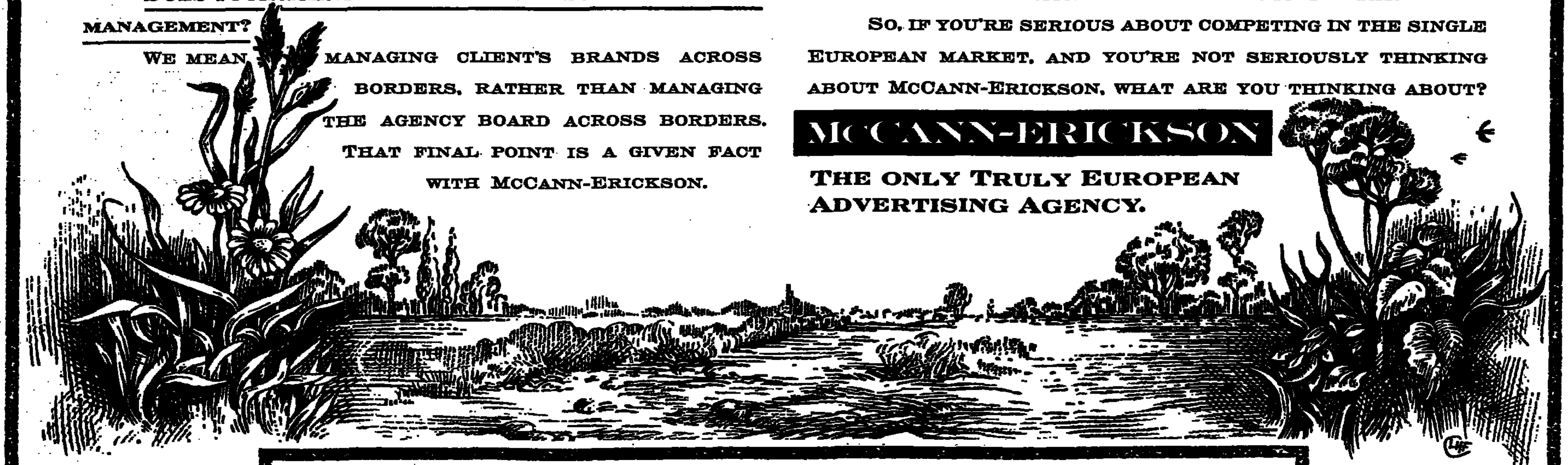

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AMERICAN NEWS

Brazil seeks $5.5bn from Japan development fund

BY IVO DAWNAY IN RIO DE JANEIRO

MR Mailson da Nobrega, the Brazilian Finance Minister, leaves today for a week's visit to Japan with the ambitious target of capturing a $5.5bn slice of Tokyo's $30bn fund for developing countries.

He will present plans for 19 projects ranging from steel works and fertiliser plants to irrigation and public works schemes. He will also use the visit to calm any Japanese bankers' anxieties over the $5.2bn debt rescheduling deal, agreed between Brazil and its commercial bank creditors in New York last week.

Brazilian finance ministry officials said yesterday that the minister would explain his measures for fighting the country's inflation – nearing 20 per cent a month – and his austerity programme to cut the public sector deficit.

Japanese criticism of Brazil has been remarkable for its forthrightness in recent months. In a public debate on relations between the countries in Sao Paulo last month, Mr Kouichi Komura, the Japanese ambassador, said he could not advise his countrymen to invest in Brazil.

The furore that followed prompted Mr Komura to temper his comments with some optimism that recent efforts by Mr da Nobrega to bring order to the economy were in the right direction. In particular, there is satisfaction with the country's new industrial policy that aims to liberalise imports.

Nevertheless, Mr da Nobrega may have some difficulty in winning Tokyo's backing for such a substantial disbursement from the so-called Nakasone Fund. Many of Brazil's economic wounds are seen by the Japanese as self-inflicted and the Fund's resources are believed to be aimed more specifically at chronically underdeveloped countries such as in sub-Saharan Africa.

Tyson delivers a knockout blow for capitalism

BY JAMES BUCHAN IN ATLANTIC CITY

BY THE time the fighters had come out under the lights in Atlantic City late on Monday night, the ring was a tight throng of people. There was Don King, the spiky-haired promoter of the championship bout and the shambling, uncertain Muhammad Ali and Donald Trump, a lot of Donald Trump, who paid $11m to get the fight for his casino and was making sure nobody forgot it.

Michael Spinks, who had never lost a fight, bent and said a prayer. Mike Tyson, who had knocked out 30 boxers, just paced up and down. To say he looked like a wild beast would be wrong, because you never saw a wild beast of such ferocity and concentration.

Only when Ali shuffled up to him did Tyson pause for a short moment for he is a respectful young man and Ali was a great champion, once, even though he mumbles now and fiddles with his glasses and wants to leave the ring if only King would let him. Then Tyson went back to pacing, up and down, up and down.

For weeks, the Tyson camp had been a mill of rumours. His training was not going well, he was quarrelling with his manager... On the morning of the fight, the New York Times predicted that Spinks, who is 10 years older than Tyson, would keep out of Tyson's way for the full 12 rounds and might even knock him out just before the end. Out on the boardwalk, touts were getting $1,000 a ticket for balcony seats.

But when Tyson started his pacing, you could see that nobody on earth would beat him. The rumours were just so much grist for the most consummate users of publicity in the US, Don King and Donald Trump. Nothing was going to distract Tyson, least of all Michael Spinks.

Tyson came out of his corner and landed eight punches on Spinks. The last of these knocked Spinks out. The fight took one minute and 31 seconds, which is not as short as three other championship bouts – in 1900, 1908 and 1982 – but a good deal shorter than it took the Master of Ceremonies to introduce all the celebrities brought in by Mr Trump, ranging from Carl Icahn to Madonna. It was shorter than the applause the audience gave Ali.

But it was a great fight, the greatest heavyweight championship ever in terms of what casino operators call "the drop". The 21,785 people in the Atlantic City Convention Hall paid the best part of $12m. Another $50m was lined up from closed-circuit showings in theatres all over the US and on pay television. Millions more were probably bet on the outcome or lost in Mr Trump's two Atlantic City casinos over the long weekend leading to the fight.

It was, said the Atlantic City Press on the morning of the fight, a triumph of capitalism. "Capitalism," the paper said proudly, "is more than sport. It is an art form."

US recalls Mexico ambassador

THE UNITED STATES is recalling its ambassador to Mexico for consultations in the wake of Mexico's decision to release a jailed Puerto Rican nationalist wanted by the US for terrorist activities, AP reports from Washington.

The recall of Ambassador Charles Pilliod was announced by Mr Marlin Fitzwater, the White House spokesman.

The State Department had expressed outrage on Monday at news that Mr William Morales, 37, was released from prison on Friday and allowed to go to Cuba.

"The release and deportation to Cuba of Morales even before completing his sentence for murdering a Mexican police officer is outrageous," Mr Fitzwater said. "This decision is an inexplicable affront to otherwise excellent US-Mexican relations and a great blow to US and Mexican efforts to combat the scourge of international terrorism."

Mr Fitzwater said that the State Department had summoned Mr Jorge Espinosa de los Reyes, the Mexican Ambassador to the US, on Monday night "and expressed our anger over the release of this convicted terrorist."

Mr Morales had served five years of an eight-year sentence for the murder of a Mexican policeman.

"Mexico's action is inexplicable," said Mr Charles Redman, the State Department spokesman. "Mr Morales' violent history is well known. He is an escaped American prisoner.

"He was convicted in the United States of serious weapons' possession charges and was implicated in over 50 bombings by a Puerto Rican separatist group which from 1976 to 1978 resulted in the death and injury of many individuals."

Mr Redman described as outrageous Mexico's decision not to extradite Mr Morales to the United States because he is a "political fighter."

That action "undercuts the fight against terrorism by legal means," he said.

He added that Mexico's decision could only have been made for political reasons because the Mexican Foreign Ministry had reversed a finding by a Mexican court that Morales should be extradited.

Chicago offers lake waters to ease drought

By Deborah Hargreaves in Chicago

AS the sizzling drought in the Midwest dries up the Mississippi River, Chicago has offered to help solve the low water problem by pulling the plug out of Lake Michigan and diverting water down the river.

The controversial move would push billions of gallons of water through the Chicago River and down the Mississippi, raising water levels by as much as six inches to a foot.

Low water levels on the Mississippi have snarled traffic as barges run aground on sandbanks. As many as 2,000 grain and coal-carrying barges were held up last week around Greenville where the water level has dropped six feet

Army engineers have struggled to dredge a 9 ft-deep channel to keep the traffic moving but as soon as one sandbank is cleared barges get stuck on another.

Chicago's proposal to spread the waters of Lake Michigan, however, requires a Supreme Court mandate. Other states bordering the Great Lakes have brought lawsuits against previous diversions because any change in the lakes' water level can disrupt transport and hydro-electric power plants along their shores.

The last time Chicago sent a substantial amount of Lake Michigan water down the Mississippi was in a similar dry spell in 1956. Water levels in Lake Michigan itself are already lower than normal.

Peru cushions petrol price rise

BY BARBARA DURR IN LIMA

PERU's new Prime Minister, Mr Armando Villanueva, said on Monday night in a major speech to Congress that the Government would raise petrol prices an average of 58 per cent and that salaries of civil servants and unionised workers would increase by 50 per cent.

He said the two steps were the start of an 18-month programme of economic reconstruction that included renewed talks with the international financial community.

The programme would be aimed at a gradual adjustment, he said, because the country could not politically withstand an economic shock. Wage increases are to be granted to ameliorate price rises.

Mr Villanueva announced that the exchange rate for all imports except basic products such as food and medicines would rise to 105 intis to the dollar from the rate set last week of 75 intis.

The exchange rate for exports, currently 92 intis to the dollar, would be adjusted regularly, he said.

For what he called "social" imports, the highly subsidised rate of 33 intis would continue.

The Prime Minister also promised a series of other steps such as tax increases and curbs on government spending without being precise.

His imprecision left many opposition politicians on the left and the right as well as economic critics unsatisfied.

They were quick to conclude that the Government's new plan would be inadequate to solve the country's increasingly deep economic troubles.

Mary Helen Spooner in Santiago reports on a rebellion against the city's smog problem

Pinochet faces a cloud of discontent

THE OPENING bars of the Chilean national anthem sing of the country's "pure blue skies" and the "pure breezes" which cross its territory.

But for Santiago's 4m inhabitants these words have an ironic ring, for the Chilean capital has become, along with Mexico City and São Paulo, in Brazil, one of the most polluted cities in the world.

In recent weeks, as a thermal inversion coupled with sparse rainfall exacerbated the capital's chronic smog problem, the pollution issue has become a political headache for General Augusto Pinochet's 15-year-old military regime.

Santiago lies in a valley ringed by the Andes mountains, a geographical position which prevents winds from sweeping away the accumulated toxins in the air.

The regime's *laissez-faire* approach to transport has resulted in tens of thousands of buses and taxis plying the capital's streets, most of them only semi-occupied or empty. Morning commuters are confronted with a thick, greenish-grey cloud as they approach Santiago's centre, a smog which extends to the capital's outlying suburbs as the day progresses.

On 3 June, a small political group calling itself Green Future, with ties to West Germany's Greens and other ecological organisations, held a demonstration in the city centre.

The protestors bearing signs which said "smog kills and the Government is responsible," and wearing white face masks, lay down on the pavement near the offices of Santiago's military governor, feigning death from the smog.

The demonstration was broken up by riot police, backed up with a water cannon truck parked a few streets away, and three protestors, including Green Future President Andres Koryzma, were arrested.

"The van they used to drive us to the police station spewed out a big cloud of black smoke as we drove off, and one of the *carabineros* (police) guarding us had red, irritated eyes from the smog," Mr Koryzma said. "We tried to start a dialogue, saying that the smog was an issue which concerned all of us, and carabineros were among the worst affected. When we got to the station, they unrolled one of our banners and several of them nodded and smiled."

Chile's Government is unlikely to take any measures which might cost it support in the presidential poll

The Green Future party members were released a short time afterwards. They were then contacted by an employee of a European airline with offices in Santiago's central business district, who asked if he and a group of Chilean office workers could join them in the next demonstration.

Mr Koryzma suggested they organise their own protest, and a second anti-smog demonstration was held on 16 June, with about 30 airline employees, secretaries, office and bank clerks donning face masks and holding up posters condemning the regime's failure to address the smog problem.

This time the demonstrators steered clear of the military governor's offices, confining their protest to the pavement across the street, and were cheered on by several passers-by.

Three Chilean carabineros, all smiling broadly, stood near the protestors but made no move to interfere.

Chilean authorities have attempted to ease the problem with a series of minor measures, such as weekday bans in the city centre on vehicles with licence plates ending in a certain number. They have also sent up light aircraft to spray the air with water and detergent.

The aircraft measure was first attempted on 7 June, when a particularly dense cap of smog covered the city. But the smog was so heavy the pilots were forced to delay take-off for several hours

Another stop-gap measure involved the obligatory use of vertical exhaust pipes on buses, so pedestrians could at least avoid getting a full blast of noxious fumes in their faces.

Two years ago Chilean authorities tried a more aggressive approach, declaring that carabineros could confiscate vehicle whose emissions exceeded the permitted level of toxins. Santiago's bus drivers, many of whom own their own buses, staged a slowdown in protest.

Within hours Santiago's military governor agreed to meet the bus drivers' leaders, and shortly afterwards authorities halted confiscations.

The Pinochet regime is unlikely, however, to take any anti-pollution measures which might cost it support in the one-man presidential plebiscite it has scheduled for later this year. Chileans will be asked to vote for or against a military-selected candidate – who might be General Pinochet himself.

Military Governor General Sergio Badiola recently promised to take drastic measures if the smog reached critical levels, a situation many Chilean physicians and health care specialists feel has already come to pass.

These measures would have included a total ban on vehicle traffic in the Santiago centre and closure of contamination-causing industries. But after one day of intermittent rainfall, authorities announced this emergency plan was no longer needed.

Meanwhile, cases of bronchitis and other respiratory ailments are increasing among Santiago residents. A doctor working at the Miguel de Servet respiratory disease clinic in Santiago reported that the institution treated an average of 500-600 cases daily. He said the hospital was unable to admit new patients due to lack of space.

Mr Koryzma pessimistically predicts that before the authorities take decisive action, the smog problem may have to reach the levels it did in London in 1952, when 4,000 people died.

"When we demonstrated outside the governor's office, we played dead to show what could happen here," he said. "We don't want what happened in London to happen here, but it may come to that eventually."

WORLD TRADE NEWS

Japanese printer makers slam EC dumping charge

BY IAN RODGER IN TOKYO

JAPAN'S electronic printer makers have denounced as a "gross iniquity" the basis on which anti-dumping charges were assessed against them by the European Community last month.

They have sent a stinging rebuttal note to the Commission claiming that the charges were based on an unfair comparison. Under EC anti-dumping rules, before such charges can be applied, it has to be established that injury has been caused to a European industry. However, the injury must be caused to like products.

The Japanese printer makers claim that the Commission based its findings on a comparison of the prices of down-market Japanese personal computer printers with those of heavy duty European made printers for mainframe computer systems.

"It is similar to comparing a Rolls Royce with a Fiat Uno," the Committee of Japanese Printers said. "It is our belief that there exists a serious error in the model comparison that was used as the basis for the proof of the injury done to the European printer industry."

The committee cites several cases, including that of the Honeywell model L32CQL which was priced at DM 2,462, being compared with the Brother M1509, the Epson FX1000 and the Oki ML193, all of which were priced at under DM 2,000. It says the Honeywell products are rated as heavy duty machines, lasting 7,000 to 9,000 hours and with a head life of 500m characters. The Japanese products are in general intended for personal computers, with a life of 5,000 to 6,000 hours and a head life of 100m characters.

The Japanese view is that European printer manufacturers, on whose 1986 complaint the anti-dumping investigation was based, have only themselves to blame for their deteriorating market shares and profits.

The big growth in the market in the past few years has been in machines for personal computer use, and that market continues to grow. In effect, they argue, the EC anti-dumping judgment is attempting to force personal computer users to buy heavy duty machines.

"We feel that printer prices for the vast majority of the EC users should not be set at an excessively high level merely to satisfy the desires of a few EC corporations."

Taiwan spurns US deal as Europeans undercut price

BY BOB KING IN TAIPEI

THE Taiwan Power Company has rejected a US bid involving a major hydroelectric project and has opened the door for the first time for rival tenders from three European suppliers.

The Taiwanese company had agreed to buy the equipment from Chicago Bridge and Iron of the US, as part of its programme to reduce Taiwan's trade surplus with the US.

The contract is for $100m of equipment for a pumped-storage hydro project at Mingtan, central Taiwan, which will be among the world's largest hydroelectric facilities. These plants use electricity to pump water uphill during the night when power demand is low, and release the water through turbines when demand is at its peak.

However it has decided that the US company's price was 50 per cent higher than a reference price of $87m obtained from an unnamed European company.

Taipower is now to open the bidding to Voest-Alpine of Austria, Noell of West Germany, and a Swiss concern, in addition to Chicago Bridge.

The US is vexed at Taipower's rejection, as it is used to winning most large state contracts in Taiwan.

Taipower has also chosen Voight Hydro of the US as its supplier of turbines for the project, although it is still looking at suppliers for motors. These contracts are worth $100m each.

Easy ride expected for revised US trade bill

By Nancy Dunne in Washington

THE US House of Representatives is expected to pass by overwhelming margins a 1988 Trade Bill containing tough provisions to force countries with large trade surpluses to open their markets to US goods.

A nearly identical bill drew a presidential veto last month, and the veto was upheld in the Senate. The new bill has been stripped of two provisions to which the president objected, and the White House has promised it will be signed.

Although the President cited several reasons for his veto, his principal objection was to a provision requiring employers to give 60 days' notice before large plants were closed and workers laid off. Under an agreement between congressional Democrats, the plant closing legislation is now moving through Congress in tandem with the Trade Bill.

There remains little doubt now that the Trade Bill, although much disliked and feared by US trade partners, will become law. Senators Howard Metzenbaum of Ohio and Edward Kennedy of Massachusetts, who could have staged a filibuster on behalf of the plant closing provision, have been satisfied by the deal with the leadership.

Senator Robert Dole, the Republican leader, has said he will try to remove from the bill provisions requiring an international Third World debt relief facility, the establishment of a Council on Competitiveness and an expansion of ethanol imports.

However, Senator Lloyd Bentsen, chairman of the Senate Finance Committee, says he has 70 co-sponsors for the bill as it stands – 10 more than is needed to shut off debate.

Democrats are even optimistic about chances of overriding a presidential veto of the plant closing bill. With polls showing that more than 80 per cent of the US public is in favour of the legislation, they believe the measure, when not drawing the additional fire of the Trade Bill opponents, can attract the two-thirds vote needed for an override.

DEAL WITH POLAND AND ROMANIA FOLLOWS CONDITIONAL CLEARANCE FROM COCOM

Boeing sells six aircraft to Eastern bloc

BOEING, the US aircraft manufacturer, has received the go-ahead for sales of up to six of its 767 aircraft to Poland and Romania, diplomatic sources said, Reuter reports from Paris.

Cocom, which vets all sales of Western technology to the Soviet bloc, cleared Boeing's application at its regular weekly meeting yesterday.

Boeing applied to sell three of its wide-bodied medium to long-haul 767s to Romania's Tarom airline and two or three of the aircraft to Poland's LOT line.

The decision follows clearance earlier this month for Europe's Airbus Industrie sales of three A-310 jets to East Germany's Interflug airline.

Cocom cleared the Airbus sales on condition that the high-technology airliners were serviced in the West, the diplomats said.

"Boeing's case comes under the same conditions [as Airbus], but it is up to the US to impose them when they issue the export licence," one diplomat said.

"Boeing's sales are probably not as advanced as Airbus's were," the diplomat said, noting that the US still had to clear the sales after the Cocom review.

Boeing officials in Paris had no immediate comment.

Airbus signed its formal sales agreement with Interflug last week, only 10 days after Cocom gave its go-ahead, at the same time as Interflug announced the planes would be serviced by Deutsche Lufthansa AG in West Germany.

Airbus and Boeing had to apply to Cocom, which groups Japan and all Nato members except Iceland, because the airliners in question carry highly-sophisticated avionics which could be used to military ends.

● China has criticised Cocom regulations as an outdated product of the Cold War, Reuter reports from Peking.

The International Business newspaper quoted an official of the Ministry of Foreign Economic Relations and Trade as telling Japanese diplomats here on June 13 that Cocom's methods and regulations were out of date.

The paper quoted the official as saying that in April the Japanese government searched the premises of two of the companies, and later banned one of them from exporting to China for one month.

"China cannot understand this incident, which cannot but influence the smooth development of economic and trade relations with China," he said. "We hope Japan will move cautiously and not again make obstacles to these relations."

The firms had signed contracts with China worth $150m but the goods had not been delivered.

Aer Lingus threatens to sue Alitalia

By Michael Donne, Aerospace Correspondent, in London

AER LINGUS, the Irish airline, is threatening to sue Alitalia over the Italian state-owned airline's refusal to allow Aer Lingus to carry passengers between Manchester and Milan.

Mr Oisin O'Siochru, company secretary of Aer Lingus, says Aer Lingus is entitled to operate on the route, is backed by the European Community, and is "bitterly disappointed

The delay in implementing the route has already cost Aer Lingus more than £300,000.

Under the terms of the EC liberalisation package agreed last December, Aer Lingus gained rights to fly between Manchester and several European cities, including Milan. The Italian authorities opposed the flights.

Earlier this month, the EC formally decided that Aer Lingus had the right to the Milan route, and declared Italy to be in breach of the Treaty of Rome.

Mr O'Siochru says that "if the Italian Government refuses to take corrective action, Aer Lingus would expect the Commission to take the case to the European Court."

Cuba trade with West in surplus

CUBA registered a $84.2m trade surplus with its Western trading partners in 1987, largely due to reduced imports caused by foreign reserve shortages, the National Bank of Cuba said in its annual report, AP–DJ reports from Mexico City.

The 1987 trade surplus with the West reversed Cuba's $289.3m deficit in 1986, the bank said.

Taiwan resigned to UK footwear quota

BY BOB KING IN TAIPEI

TAIWAN'S footwear industry appears resigned to the imposition of quotas on its exports to the UK, where the Department of Trade and Industry has asked the European Commission for relief on imports from the Far East.

The DTI alleged in its complaint that imports from Taiwan alone during 1987 rose by 35 per cent over the previous year, and another 25 per cent during the first two months of this year.

Taiwan's Foreign Trade Board maintains that the import surge into the UK results from transshipments through other countries, and that the UK is not controlling such imports.

The board adds that it issues export licenses for direct shipments to the UK under a "gentlemen's agreement" with British manufacturers, but it cannot control UK-bound exports trans-shipped through other ports.

Taiwan believes that a successful application for relief by Italian footwear makers earlier this year – which cut imports of shoes from Taiwan by 40 per cent – will serve as a precedent for the EC

Blow for BA and Pan Am as Berlin routes are opened to rival airlines

BY LESLIE COLITT IN BERLIN

THE WESTERN airlines serving West Berlin – British Airways and Pan Am – reacted with dismay yesterday to the announcement that the Western Allies had approved a massive expansion in air services between West Germany and West Berlin.

American Airlines, TWA and a joint Air France-Lufthansa subsidiary were given permission by the United States, British and French governments to provide scheduled services between West Berlin and six West German cities.

Together with a new BA service to Frankfurt from West Berlin and a Pan Am route to Düsseldorf, an extra 4m passenger seats a year would be offered, compared with 6m passenger seats now.

Mr Harald Kosel of Pan Am said the decision would result in reduced market shares by all the airlines as the Berlin market was "stagnant to declining".

"It's crazy for American Airlines and TWA to come here," he said.

Carriers will have a seat load factor of 30 per cent compared with Pan Am's present 55 per cent on the inner German routes, Mr Kosel noted. This would mean an additional 2m passengers a year which he said were unobtainable as West Berlin had no hinterland.

Ironically, the impulse to expand the number of carriers in the lucrative Berlin market was given by President Ronald Reagan in a speech he gave in the city last year. He called for better air links between Berlin and the West.

BA's spokesman in Berlin, Mr Bernd Wietfeld, said the airline would fight to retain its share of the market. The additional competition could mean reducing the number of flights on shorter routes between West Berlin and West Germany.

A US official said yesterday however that the airlines might well have difficulty obtaining sufficient "slots" to take off and land at overburdened Frankfurt and Munich airports to take full advantage of the new opportunities.

The real surprise was the announcement that Air France and Lufthansa would establish a subsidiary to serve West Berlin. Until now air services to the city have been the preserve of carriers of the Western Allies, although Lufthansa has for years unsuccessfully attempted to operate flights to Berlin.

Lufthansa also wants to open a joint service with East Germany's Interflug airline between Frankfurt and Leipzig. This however has been held up by the three Western Allies who still control the air space between the two Germanies and are worried about undermining the three air corridors reserved for the Allies between West Berlin and West Germany.

MANAGEMENT

Bajaj Auto

Seeking a competitive edge in international markets

John Elliott on the Indian motorcycle maker's strategy in a less protected environment

BY COMMON consent Rahul Bajaj is one of India's best entrepreneurial industrialists and managers. He runs a family company, Bajaj Auto, which is the world's second largest scooter manufacturer and is regarded as one of India's most efficient engineering businesses.

Two years ago he was chosen by Rajiv Gandhi, the Indian Prime Minister, to become part-time chairman of Indian Airlines, the country's over-stretched and much criticised domestic air carrier. There he has been trying to inject some customer consciousness and staff enthusiasm into a nervous government-dominated public sector organisation.

Yet despite this managerial record, Bajaj can only find export markets for less than 2 per cent of his company's output, and last year he had to face up to the shock of a poor launch in India of a 100cc motor bike produced with Kawasaki of Japan. The bike was withdrawn. Its gear ratios were reworked for slow Indian roads and other improvements introduced. A few months ago it was successfully relaunched, aided by a new marketing department.

Till then Bajaj had never had, nor needed, formal marketing. "We only had an allocation and despatch department, and needed nothing else. Now I am having to face up to the management issues of coming out of a protected market and a shortage economy," says Bajaj, whose company has provided India with about half the 4m two-wheelers now on the road and now has about 40-43 per cent of the market.

In the heyday of industrial controls on production levels between the late 1960s and early 1980s, there was a ten-year waiting list for the scooters which fetched a market price 40 to 50 per cent above list prices.

In the world league, Bajaj Auto, with an annual output of about 520,000 scooters, is second to Honda with 1m. It is the fourth biggest for all two- and three-wheeler producers — including its distinctive auto-rickshaws — after Honda, Yamaha and Suzuki. Its runner-up in scooters, with 300,000, is Piaggio of Italy, which supplied Bajaj with its original Vespa designs and then took legal action in 1981 to stop it exporting to the US and West Germany.

The marketing lesson stems from the liberalisation of the Indian economy in the past few years, which has opened up the country's first-ever buyers' markets for a rapidly growing consumer class of 100m-150m out of a total 800m population.

But the export problems remain because India's liberalisation is far from complete, and there are still many bureaucratic and other impediments in the way of the sort of quality and price levels needed to sell goods in international markets.

"I would like to raise my exports from under 2 per cent of production to 15 per cent but for that I need an internationally competitive product which is exportable," says Bajaj, whose company illustrates the sorts of problem and contradiction faced by an ambitious outward-looking manufacturer in a traditionally protected developing economy.

Now Rahul Bajaj wants to shed his workaholic image a little and he is changing his one-man management style with substantial delegation

Problems include stiff government restrictions on expenditure of foreign exchange for importing capital goods such as machine tools, high cost of borrowing, appalling electric power shortages, a lack of concern in India about quality and high-priced Indian steel. Together, they are estimated to put net export prices 25 per cent above Japanese levels.

Bajaj, aged 49, belongs to India's rich, famous, and often avaricious Marwari business caste which originated in the western desert state of Rajasthan. But he has an approach which marks him out from this clan.

There are strong family reasons why Bajaj is different. He has what he calls a "family background of ethics, honesty and simplicity." Grandfather Jamnalal Bajaj was a leading member of the pre-independence Congress Party, and a close confidante of Mahatma Gandhi, leader of the freedom struggle, who often called him his "fifth son".

Jamnalal demonstrated his devotion to the cause by supporting Gandhi's promotion of village-made khadi cloth and by burning thousands of rupees-worth of mill-woven cloth which was regarded as a symbol of British-owned business. With the Birlas, now one of India's two largest private-sector business houses, Bajaj was the biggest financier of the freedom movement. And members of the family were often in jail.

That sort of family involvement in the freedom movement still brings respect in India today. Rahul Bajaj has interpreted the family tradition by adopting a very simple lifestyle at home, well below his substantial means.

When he took over the company 20 years ago he set up home in a house inside the Bajaj factory complex at Arkudi in Pune, where he and his family still live.

"My friends say I'm daft but it is my job to motivate and lead and it set one hell of an example to the workers," says Bajaj, adding pragmatically: "Anyway it was the best form of 24-hour-a-day training for my first ten years."

His three children all went to the local Arkudi school though Bajaj intends that, like he did, his two teenage sons should go abroad and do an MBA course in the US after a couple of years in the company. But they must get into what he regards as one of the best schools — Harvard, MIT or Stanford, plus a couple of other possibles. "I won't let them then go to Florida or the University of California — that's for tennis and blondes."

Now Bajaj wants to shed his workaholic image a little and he is changing his one-man management style with substantial delegation. He is also building up a new corporate image with the company's first head office separate from production buildings and is modernising with a Digital Vax 8800 computer, which he says is the most powerful yet imported by Indian industry.

"What will give me satisfaction is to become a truly international company selling around the world, to become known internationally for quality, technology and low cost — which no Indian engineering company is doing at present.

"We are very profitable but profits should not be the main objective of the business — that means you just go for short-term profits and so take wrong decisions. Profits are the need of the business; the objective or aim is satisfactorily to meet the needs of customers which leads us to our primary aims of low cost with effective cost control, good quality and technology, and economies of scale of production — and then you get profits anyway."

He also concentrates on the field he knows — two wheelers — and refuses to follow his fellow industrialists into random investments.

"I tell my friends that they are diversifying into positions of weakness by going into products they know nothing about with no knowledge or scale of production," he says. "There is a huge market in two wheelers, so why diversify into things we don't know about?"

Bajaj's only ambition for a logical diversification has been to acquire the UK Rover group's 40 per cent stake in Ashok Leyland, a south Indian truck and bus company.

However, this was frustrated late last year when the UK interests chose to sell to the controversial and politically-influential Indian-born trading family of Hindujas, who are based in Europe and had no manufacturing experience. Now Bajaj is eyeing other possible acquisitions in the engineering field.

On labour relations he adopts a rare tough line for India where both legislation and political pressure favour unions and make dismissal almost impossible. He has just won a wage parity labour dispute at a new factory at Aurangabad 250km from Pune after a 7½-month lock-out.

In a test case of Gandhi's wish to weed out public sector sick industries, he is refusing to take over a government-owned factory called Scooters India till everyone, including the workers, agrees that he need only inherit 1,500 of the 3,100 labour force.

Bajaj Auto has 16,000 employees and is the largest company in a family business house which includes Mukand Iron and Steel, Hindustan Sugar Mills and Bajaj Electricals. The group is the ninth or tenth biggest in India's private sector with assets of Rs6.35bn ($380m), a turnover in 1986-87 of Rs10.74bn and pre-tax profits of Rs1.04bn.

The turnover of Bajaj Auto in 1986-87 was Rs6.08bn, with pre-tax profits of Rs853m, the second highest in the private sector. Because of the Aurangabad lockout, turnover is expected to have fallen to about Rs5.5bn in the year 1987-88 which is just ending, instead of rising to Rs7bn, and profits have also fallen.

After enjoying years of luxury in the Indian market of shortages, Bajaj is now facing competition from a host of new Japanese tie-ups, including Yamaha and Suzuki, and Piaggio which has come back in through another Indian company. But despite this, Bajaj aims to produce 1m of India's 1.8m annual production in 1990-91, maintaining his market share.

But the company is still small by Japanese standards. It spends hardly anything on research and development — about Rs10m a year out of the Rs6bn turnover, though this is a lot for India.

Bajaj likes to point out that Honda spends twice his annual turnover on research and development and then admits that his own figure is lower than it ought to be. "The Indian market does not need R&D but I do to compete internationally," he says.

Because of his success, he is finding it increasingly difficult to buy complete designs from Japanese and other companies. He is therefore now purchasing process engineering and other know-how such as scooter electronics from Spain, a three-wheeler body design from Italy, and fuel efficiency research from Queen's University Belfast.

He is also hiring UK management consultants Coopers and Lybrand for a 15-month study on how to get 20 per cent more output from his somewhat untidy production areas, where conventional robot-style automation is regarded as uneconomic because of India's very low labour costs. He acknowledges the need for foreign management know-how: "On the Kawasaki deal we got the design and production drawings three years faster than we could have produced them, but the main advantages for us really was the management input — the Japanese strength is their common sense in management."


Tony Andrews
Rahul Bajaj: although his company is the world's second largest scooter maker, he only exports 2 per cent of output

Management abstracts

The analysis and use of financial ratios. *P. Barnes in Journal of Business Finance & Accounting (UK), Winter 87 (13 pages).*

Identifies the uses to which financial ratios have been put, especially for production, and reviews recent methodologies and the use of statistical models. There is an extensive bibliography for what is basically a literature review.

An objective analysis to determine finished product inventory. *W.H. Clegg in Industrial Engineering (US), Oct 87 (2½ pages).*

Outlines a procedure which determines the relationship between the cost of carrying inventory, plus back-order cost, against customer service levels; derives a formula which quantifies the trade-off between additional units of inventory over and above economic order quantities and incremental improvements in customer service levels.

What British distributors dislike about manufacturers. *D. Shipley in Industrial Marketing Management (US), Aug 87 (10 pages).*

Investigates the relationship between manufacturers of engineered products and their distributors; finds that producers have much to gain by cultivating these relationships. Analyses the causes of distributor dissatisfaction and points to many that are easy to resolve in theory, but difficult in practice. Points out that in the nature of things distributors must be customer- rather than producer-oriented.

Blueprints: designing large-scale management information systems. *R.S. Tripp and M.C. Fitteau in Information and Management (the Netherlands), Sept 87 (18 pages).*

Shows how blueprints were used in the development of a massive information system for the US Air Force so as to ease communication and reduce critical design errors, by providing visual images of the various parts of the system and how they interrelate. Describes the analysis of the system's intent and objectives, the finalisation of design of each segment, the prototyping and implementation. Provides examples of the blueprints that were used to hold the whole thing together.

Corporate leaders in Britain and America. *D. Norbus in Journal of International Business Studies (US), Autumn 87 (18 pages).*

Investigates the extent of similarity between 1,708 American senior vice-presidents and 418 British counterparts considered representative of the top management teams of the largest national companies; finds substantial differences in terms of corporate "grooming" (eg career areas), educational and domestic experience (marital status; parental occupation), and in self-concept (aspirations; religiousness). The (British) author believes his findings will have significance for companies contemplating involvement in the "other" country.

Silicon Valley's 'new wave' of Europeans. *R. Gibb in International Management (UK), Nov 87 (3½ pages).*

Though on the face of it this is a personalised account of the motivations of young, high-tech Europeans who have left their countries of origin and have prospered in California's Silicon Valley, it is really a comparison of US v European business methods and attitudes towards entrepreneurialism.

A mission approach to customer profitability analysis. *A. Anandarajan and M. Christopher in International Journal of Physical Distribution & Materials Management (UK), Vol 17 No 7 87 (14 pages).*

Discusses the use of customer profitability analysis for assessing the true costs and real profitability of servicing different customer types or market segments; uses the results of a study of four diverse companies to review the implementation of a system of customer profitability accounting; considers the deficiencies of traditional accounting systems. Advocates the use of a "mission" approach to analysing costs, ie to focus on the ends to which expenditure are related rather than who does the spending; provides a framework to illustrate this technique; recommends the adoption of the "avoidable cost" concept which addresses costs that would be avoided if a customer/segment were no longer serviced; demonstrates how it can be developed to provide a system of customer profitability; provides a six-stage programme for its design and implementation.

Employees as independent contractors. *J.C. Bailes & R.L. Edwards in Management Accounting (US), Oct 87 (4 pages).*

ITT Rayonier's Northwest Forest Operations division was suffering from excessive costs and was faced with curtailing operations. But they came up with a solution that allowed the company to contract with groups of employees. Known as the 'POD system', it has both reduced costs and improved productivity, while members of a POD benefit from self-supervision and decision-making responsibilities.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

TECHNOLOGY

Japanese lay software ghost in Paris

Alan Cane examines fundamental changes in the world computing services industry

THE WORLD computing services industry faces an extended period of change, forced by major improvements in technology, powerful new competition from Japan and the Far East and fuelled by high growth rates in virtually every one of its sectors.

This message was emphasised repeatedly at the sixth World Computing Services Congress which closed in Paris last week. Attended by over 500 delegates, it was notable for the fact that the largest national delegation came from Japan, and that US services companies were poorly represented.

Now that the notion that the Japanese cannot write software comparable with Western nations has been finally laid to rest, it is clear that they are taking the business very seriously.

A Japanese Government-sponsored programme to automate the production of software is in the final stages of testing.

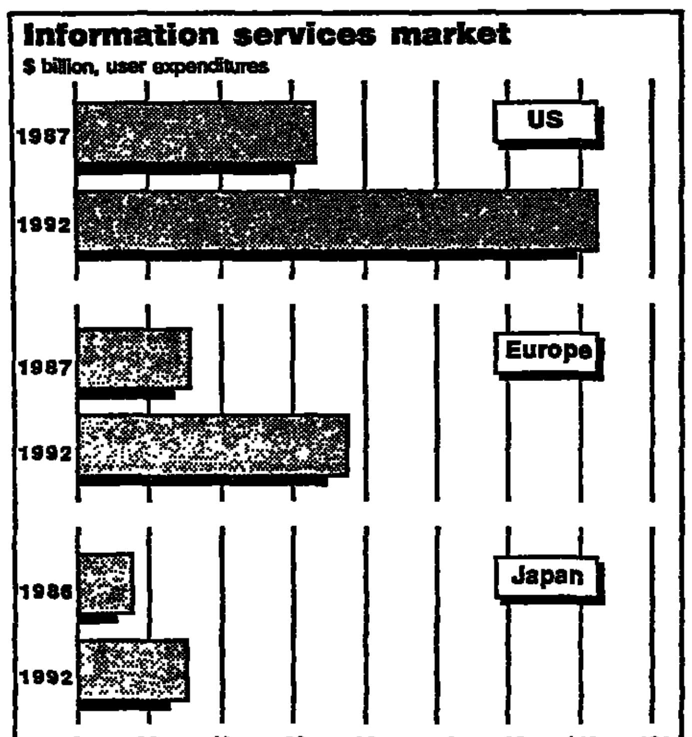
In turn, Japan's commitment is being taken seriously by competitors. Japanese support for the Congress was taken as encouraging, in that it raised the quality of international debate in an event that is often seen as more of a social occasion than a serious exchange of views. But their presence was also seen as a business threat.

Delegates heard Saburo Chatani of Mitsubishi Electronic Computer Systems say that the Japanese Information Services market was worth $15.5bn in 1986 and would grow fourfold to $59bn by 1997.

It also heard Martyn Thomas, chairman of UK-based Praxis Systems, warn that the software and systems business faced its most severe test in the next few years through technological advances which would place new emphasis on "application specific integrated circuits (ASICs)" — essentially software embedded in silicon.

Most current ASICs, he said, were of low complexity, typically below 2,000 "gates" (logic elements), but within five years 500,000 gates would be realistic and 2m gates possible with design times reduced to under three months from concept to market.

"These advances will destroy much of the market for embedded *microprocessor systems,"* he said. "Equivalent systems using ASICs will have lower weight, smaller size, lower power consumption *and lower heat dissipa*tion. Low volume production will



be economic and the resulting systems will be easier to protect with patents than software equivalents."

Small companies, he said, could move quickly in the face of these profound changes, but he questioned whether large computing service companies would survive the 1990s.

High growth rates in most sectors are a powerful force for change

Last week, however, the services industry took the first steps to deal with what it sees as a more immediate problem — an acute crisis of identity.

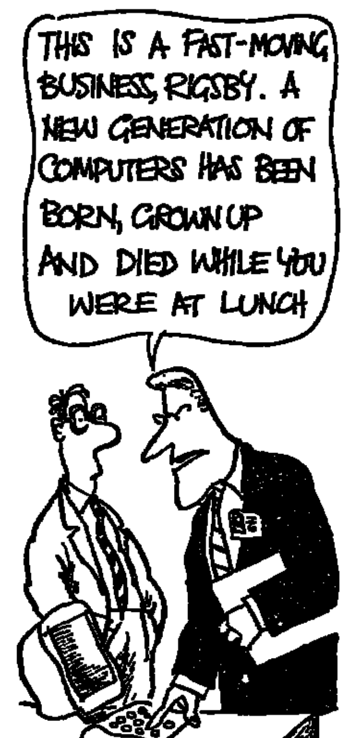
The leaders of the computing services business in 18 separate countries met at the conclusion *of the Congress to decide what* kinds of organisation should properly be included in their industry. They agreed on a pro*gramme in which existing defini*tions would be collected together and boiled down into a common view of the industry, which could then be offered for universal acceptance.

Superficially a trivial matter, defining the computing services business has profound implications for an industry already reckoned to be worth $100bn a year worldwide, and growing, by any definition, at about 20 per cent per annum.

Computing services covers a broad range of types of company. There are, for example, software houses specialising in the creation of computer programs, systems integrators, which put together software and computer hardware to fulfil a customer's data processing requirements, and computer bureaux which sell time on their own computers to companies that have either no computers of their own or inadequate processing capacity.

There are also consultancies, which advise on computing strategies, recruitment and training companies concerned with the supply of human resources, and *leasing companies that manage* the financial side of computer acquisition.

These various sectors do not *have a lot in common. Further*more, although large integrated



groups have started to emerge — Cap Gemini Sogeti in France, Computer Services Corporation in the US, SD Scicon in the UK — most computing services companies are small, often still run by their entrepreneurial founders and fiercely competitive, one with another.

The immediate problem is an acute crisis of identity

The paradox, therefore, is that while these *companies* are responsible for developing many of the computer systems on which the world's economic and *industrial development depends,* they present little in the way of a united front on industry and wider issues.

The WCSI Forum, the group which met in Paris after last week's Congress and was made up of representatives of each of the participating country's trade associations, is the industry's most visible sign of a desire to speak with one voice.

Hence the problem of identity. To date, the boundaries of the industry have been defined chiefly by market research organisations, government statistical departments and the media.

Datamation, for example, the leading US data processing magazine, places number one in its annual list of computing services companies TRW, a widely diversified engineering and high technology group with interests in space, defence and automotive parts.

Is such a company really part of the same industry as, say, Cap Gemini Sogeti, the strength of which is built on its skills in software engineering? Or how should the industry regard Electronic Data Systems, now part of General Motors.

The Datamation list includes Unisys, the third largest computer manufacturer. But are manufacturers, all of which develop large amounts of software, part of the computing services industry?

*Arthur Anderson, the accoun*tancy firm, is also on the Datamation list. Its presence there is perfectly acceptable in Europe, where accountants have long been recognised for their skills in computer consultancy, but controversial in the US where they are seen as horning in on the legitimate market place of service companies.

Does it really matter? Dr Douglas *Eyeions,* director general of the European Computing Services Association gave a clear answer in a paper delivered at *last week's Forum meeting. This* explained that because of the lack of precision in definitions it was more difficult to establish *accurate statistics for the com*puting services industry than for more traditional business sectors.

"But it is the very dynamic nature of our industry which makes it all the more important to spot the trends and draw attention *to the rapid changes* which affect such fundamental parameters as basic employment patterns and skills shortages for *the purpose of economic plan*ning. And similarly it is necessary to supply accurate and timely statistics to the potential *shareholders and financial ana*lysts whose business confidence and support is essential to sustain the growth of computing services companies," said Dr Eyeions.

WORTH WATCHING

Edited by Geoffrey Charlish

Why sky-high view is less cloudy

ANYONE WHO has sat in a window seat in an older aircraft will know the irritation of not being able see through it because of age crazing and scratching of the surface.

At intervals, these acrylic *plastic windows are taken out* and re-polished, a labour intensive process costing some $20 to $40 per window. Replacement is even more expensive at about $150 each in material costs alone.

To answer this problem, *EMI-MEC of Chandlers Ford in* the UK, has devised a turning machine which will remove just enough of the window sur*face to restore it to pristine* condition. The process can be completed in about four minutes, and is claimed to be cheaper than *re-polishing. It* can deal with both sides of seven windows in an hour.

The machine uses a dia*mond-tipped tool under micro*processor control to give a mirror-like surface without further polishing.

The accuracy of the automatic process means that windows can be re-processed twice as many times than with re-polishing, before the remaining material is too thin to be safe. EMI-MEC believes that savings mean the machine, which costs £80,000, will pay for itself in six months.

Less dedication to word processing

THE LATEST Office Systems Industry Report from Dataquest, the US-based technology market research group, predicts the demise of the dedicated word processor by 1992 in office text processing and publishing.

In the US, shipments deteriorated sharply last year to 19,200 units, worth $124m. Sales amounted to $764m in 1986 and had peaked at $1.6bn in 1984.

The decline has occurred while the personal computer, able to carry out other tasks as well as word processing, has swept the office text market. Sales are expected to top $11.6bn this year, having risen from 6.5bn in 1984.

Dataquest notes, however, that there is now a sizeable installed base of 971,000 dedicated word processors in the US, of which Wang has 25 per cent, followed by IBM with 17 per cent.

The research group believes that during the next five years, these users will actively begin to switch to PCs and *other multi-function workstat*ions. "This installed base will be a battle zone, with established vendors fighting to pro*tect their own customers from* other document management system suppliers trying to make inroads into new terri*tory," says Dataquest."*

Danger taken out of tanker operations

AUTRONICA, of Trondheim in Norway, has developed a radio-based tank gauging and information system that can be used for the safe loading and unloading of tankers, or for the supervision of land-based tank farms.

Equipment used in such areas has to be "intrinsically safe", which means that its use must not generate sparks that *could ignite fuel. To gather* data, UK company Oyster Terminals has developed a safe hand-held keypad and display unit. Called the 84C, this is incorporated into the Autronica system.

About the size of a hard-backed novel and weighing 800 grams, the terminal is used with a UHF radio transceiver carried by the loadmaster. Every two minutes, data about liquid levels is transmitted from up to 50 tanks and stored in the terminal's memory.

Wherever he is, *the loadmas*ter can call up the data on the 80-character liquid crystal display. In addition, he can see how long a tank will take to fill or empty — the terminal having used successive level readings to make the calculation.

Pay-as-you-use paging from Philips

PHILIPS TELECOM has launched a "pay as you use" wide area radio paging service over most of the UK. Customers select the regional boundaries most suited to their businesses and pay for paging in these areas only.

Users *have the* choice of three types of pocket paging unit. The simplest emits one of four tone signals which have pre-determined meanings for *the user. The second allows* two of these messages to be the subject of a numerical display which is nine digits long, *while the third can show up to* nine messages of words and numbers, which are scrolled across the pager's display panel.

A further recent communications development, from Philips Business Systems group, is *an approved "line adaptor* module" (LAM). This enables personal computer users to communicate with each other *or with a company mainframe,* using the existing telephone extension wiring from one of the company's Sopho-S digital *private telephone exchanges.*

The LAM offers two 64,000 bit per second channels to the international "2B+D" standard that has been laid down for the forthcoming ISDN services that many countries are planning to introduce.

ISDN (integrated services digital network) allows data and video calls to be made, as well as ordinary phone calls, over the public phone network.

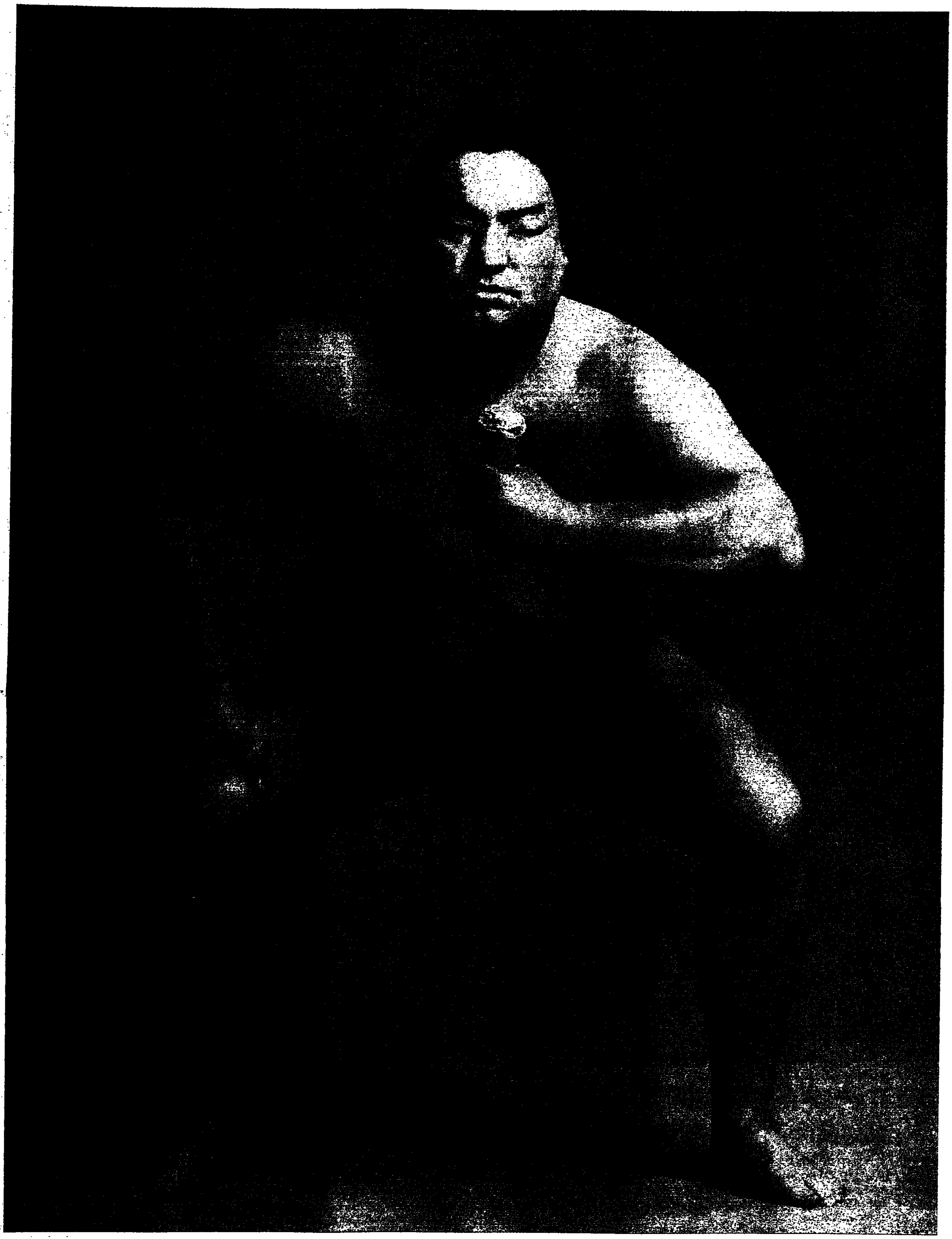
Risk-free test for trading systems

DELTATEK, of Harlow in the UK, is offering equipment which, connected to a London Stock Exchange member's trading system, will make it think it is connected to SEAQ and SEAF (the Stock Exchange's *automated quota*tion and execution services).

Since no real connection is made, this emulator can carry out non-invasive testing of the member's equipment, which, since it commits both trading parties legally, clearly needs to be the subject of very thorough testing.

Deltatek claims that other invasive *approaches introduce* testing software into the trading system itself and can change it, introducing further risks. *Also,* the new emulator is completely independent of the company that developed the member's facilities.

EMI-MEC: UK, 0703 267211. Dataquest: London, 379 6257. Philips Telecom: UK, 0223 61222. Autronica: Norway, 7 91 8080. Deltatek: UK, 0279 638829.



UK NEWS

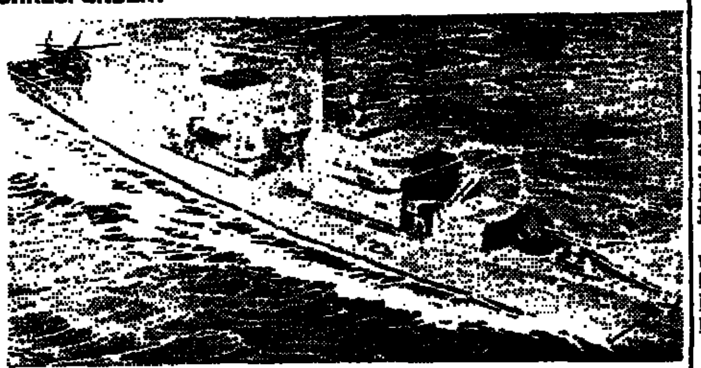
Navy 'needs more ships to fulfil even peacetime role'

BY DAVID WHITE, DEFENCE CORRESPONDENT

THE ROYAL NAVY will not be able to fulfil even its peacetime roles unless the Government orders more ships, the House of Commons Defence Committee warned yesterday.

The cross-party committee expressed in a strongly-worded report "the greatest concern" that the fleet of destroyers and frigates might fall significantly below the Government's own target of about 50 ships.

It also warned of the effects present uncertainty was having on shipyards.



Artist's impression of the newest Type 23 frigate

It said it had no evidence that ministers were proposing to approve the level of orders needed to check the fleet's decline. If the money were not available, it said, the Government should not cut other commitments but should set in hand a formal review of the whole defence programme.

The report comes as a decision is awaited on the number of new Type 23 frigates which are to be ordered for the Navy. Tenders were invited for up to four.

The committee said that although the Ministry of Defence planned to extend the life of the Navy's older ships, 17 more needed to be ordered during the next 6½ years to maintain today's level.

Ministry of Defence figures this month showed a fleet of 47 destroyers and frigates, of which only 32 were fully operational.

"If the number of destroyers and frigates falls much below its present level, the Royal Navy will not be capable of meeting all the peacetime tasks which it is currently directed to undertake, and we doubt whether it would be of an adequate strength for the wartime roles assigned to it by Nato," the committee warned.

It said the Navy was already overstretched and unable to participate as much as it would like to in Nato exercises. The Armilla patrol sent to safeguard shipping in the Gulf was reckoned to occupy 25 per cent of all sea-going time of British destroyers and frigates.

In wartime, the demands of "forward deployment" to contain enemy forces in the Norwegian Sea would leave "very limited resources" for other tasks such as protecting Atlantic merchant shipping.

The committee cited estimates from Mr Malcolm Chalmers, a lecturer at Bradford University's School of Peace Studies, that maintaining a 50-ship force including frigate-based helicopters, missiles and support vessels would cost £7.5bn over a decade. This would make it the UK's largest single defence equipment programme over that period.

It said, however, that much of the philosophy behind the original 1981 commitment to sustain the level seemed to have been "quietly discarded," without being replaced by a coherent long-term plan.

UK to insist on lead role in satellite development

By Peter Marsh

BRITAIN will insist on taking the leading role in developing a remote-sensing satellite associated with an international space station planned for the 1990s, Mr Kenneth Clarke, Trade and Industry Minister, said yesterday.

Mr Clarke also said he was unhappy about other schemes being supported by the 13-nation European Space Agency, which he said were "silly" and costly.

Mr Clarke made his comments as agency meets to discuss whether Britain or West Germany will perform the leading role in the design of the remote-sensing vehicle, which is to be part of an ambitious space station planned by the US, Western Europe, Canada and Japan.

A two-day ESA gathering in Paris which started yesterday will consider the merits of the two countries' bids.

Britain ended almost a year of indecision two months ago by saying it would join the West European part of the space station scheme. The UK will contribute £250m of the £2.8bn cost of the European part of the venture, which has the umbrella name Columbus and largely comprises two pressurised laboratories for use by scientists involved in low-gravity experiments.

THE BARLOW CLOWES AFFAIR

Liechtenstein papers handed over

BY WILLIAM DULLFORCE IN GENEVA

MR DAVID Mitchell, a Geneva-based chartered accountant, said yesterday that he had handed over to liquidators all the documents from the Liechtenstein-registered companies, which were linked to the collapsed Barlow Clowes financial group and of which he was a director.

The documents were handed over last week in Vaduz, Liechtenstein, to Mr Richard Coleman of Cork Gully, the London accountancy firm acting as joint liquidator.

One company, Tifa, held a big shareholding in James Ferguson Holdings, which became the parent company for the Barlow Clowes group last year.

Mr Mitchell said that holding had been sold to Sandover Ltd on the instructions of Dr Peter Naylor, a Surrey resident.

The Tifa documents contained details about the buying and the selling of a number of companies, Mr Mitchell said.

But, he added, "there is nothing left, they have all been sold on."

Tifa was now no more than a shell and there were no records of previous fiduciary transactions, Mr Mitchell said.

Other documents transferred to Cork Gully by Mr Mitchell came from:

● Chateau d'Auros, the vineyard near Bordeaux owned by Mr Peter Clowes

● Northern Properties, a company with Spanish connections

● St Bartholomews Investments, a Liberian company whose shares were held in Liechtenstein.

According to Mr Mitchell, Mr Coleman also intended to collect in Vaduz documents from International Securities, a company of which Cork Gully holds bearer shares.

Mr Mitchell said that Mr Coleman had told him these shares had been found in a truck parked opposite the offices of Mr Clowes in Poynton on the day of Mr Clowes' arrest.

Mr Mitchell, who was interviewed here last week by Mr Michael Jordan, a senior partner of Cork Gully, helped to set up Barlow Clowes Partners SA in Geneva.

He said he had no further connection with the company after August 1986.

He suggested that the liquidators should speak to members of the staff who had worked with the company since then.

Peter Clowes, head of the Barlow Clowes group

Closure orders raise prospect of negligence claims

Clive Wolman assesses the position of investment advisers in the Barlow Clowes affair

CLOSURE ORDERS issued against two firms of investment advisers which between them put more than £60m of their clients' money into the Barlow Clowes funds have increased the prospects of the clients of such investment advisory firms making negligence claims against them.

The greatest fear of the clients of these firms must be that their claims, if successful, would not be met.

Two advisory firms have so far been closed down by the Financial Intermediaries, Managers and Brokers Regulatory Association (FIMBRA), one of the five new self-regulating organisations.

Both the Retired Persons' Investment and Pensions Advisory Service, which is based in Weybridge, Surrey, and D.C. Wilson and Partners, which is in south Manchester, invested such large amounts of client money in the Barlow Clowes Gibraltar fund that there must be doubts whether they would be able to meet all the claims against them either out of their own resources or from their professional indemnity insurance policies.

It is not even clear whether the policies that these two firms hold actually cover the type of investment that was made in Barlow Clowes.

The standard policy suggested by the Insurance Brokers Registration Council appears not to cover investment in a gilt-edged (Government securities) fund – or in a fund which purported to be investing in gilt-edged securities – although they ought to have amended their own policies to ensure that they were covered.

Neither firm was prepared to comment last week.

The two firms are more vulnerable to legal action because of the very size of the investments placed with Barlow Clowes' Gibraltar fund. An investment adviser who put 75 per cent of his client's money into one fund will be considered to be under a greater duty of care to investigate the fund's credentials than one who put perhaps 10 per cent of his client's money into the fund.

But even those advisers who put only a small proportion of client money into the Barlow Clowes funds will have to show that they made some check to verify the claims of Mr Peter Clowes that the money was being invested entirely in gilt-edged securities or other deposits with a similarly low risk.

They claim that the interest paid out to investors was always prompt and accurate and that they detected no other faults of administration. They say that they checked on Mr Clowes' reputation in the City of London, and were given confirmation by stockbroking firms that they had executed gilt-edged transactions on behalf of the funds.

The segregation of clients' accounts from those of the Barlow Clowes company was also an important factor in reassuring several advisers.

But in previous cases in which investment companies have become insolvent, the protection of segregated accounts has been shown to be illusory.

The mingling of such accounts can give a warning to regulators at an early stage when something is going wrong. But if there are no regulators inspecting a firm's accounts, then this does not apply. The failure to appreciate this point may be evidence of a lower level of expertise and experience than a client has the right to expect from a supposedly professional adviser.

What other checks and measures should – or could – the investment advisers have carried out?

First, they could have insisted on the appointment of a reputable bank as a trustee in Gibraltar to ensure that all the money was properly invested.

Second, they could have insisted on a closer scrutiny of the accounts and of Stock Exchange contract notes and certificates to establish the relationship between the inflow of money and its investment in gilt-edged securities.

Third, they might have been more sceptical about the ability of at least the Gibraltar operation to achieve the returns that it was quoting after dealing costs, management charges and commissions to intermediaries were taken into account.

Fourth, they should have given a warning to the client of the risks of offshore investment, and questioned why it was necessary to locate the fund outside the protection of the UK regulators.

The suggestions accepted by some advisers that some sort of income tax saving could be achieved by a UK resident investing in the fund were almost certainly wrong.

Although most intermediaries gave some warning, however cursory, about the risks of offshore investment, the Investment and Pensions Advisory Service in Weybridge gave no hint of the risks and actually wrote in its client literature: "Whether administered in London or Gibraltar your investment is secure."

Finally, they should have disclosed any large commissions and other inducements that they received for recommending Barlow Clowes.

On the face of it, the Barlow Clowes commission payments were not out of line with the industry norm. In fact, some advisers say that they were paid only 1 per cent commission for putting clients' money into the Gibraltar fund whereas a normal gilt-edged unit trust, supervised by the Trade and Industry Department, pays 3 per cent (as did the Barlow Clowes UK fund).

Some advisers appear to have received other inducements or to have had other business relationships with Mr Clowes. Mr Desmond Wilson, of D.C. Wilson and Partners, was involved in a joint venture with Mr Clowes to sell investment products to expatriates and his son worked for Barlow Clowes.

Correction

International Trust Company

IN AN article in the Financial Times of June 17 it was incorrectly stated that International Trust Company (British Virgin Islands) is registered as the owner of International Trust Corporation (wrongly described as International Trust Company) run by Mr Peter Henwood in the Isle of Man.

The BVI company does not own and has no interest in the Isle of Man company.

Lending rates rise fourth time in month to 9.5%

BY PHILIP STEPHENS AND PETER RIDDELL

THE GOVERNMENT yesterday pushed up the cost of borrowing for the fourth time this month, signalling a ½ percentage point rise in banks' base lending rates to 9½ per cent in response to Monday's news of a massive increase in Britain's trade deficit.

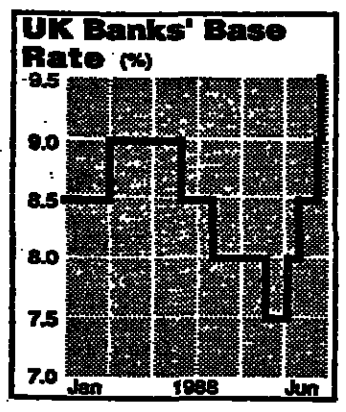
The rise, announced by commercial banks after a lead from the Bank of England, is expected to trigger higher mortgage rates in coming weeks. Building societies, however, indicated that they were not under immediate pressure to increase rates because of record inflows from depositors.

Mrs Margaret Thatcher, the Prime Minister, said that the news of a worst-ever £1.2bn deficit on the current account of Britain's balance of payments in May had been "very disappointing". Speaking at the end of the European Community summit in Hanover she indicated that the rise in borrowing costs demonstrated the Government's resolve not to allow it to translate into higher inflation.

News of the latest increase was received at Westminster with some apprehension on the Conservative side and sharp criticism from the opposition.

London's financial markets appeared unconvinced that a half-point rise would be enough to curb the runaway pace of demand in the economy behind the deteriorating trade position, particularly as the tax cuts announced in the budget have now begun to boost pay packets.

After rising strongly at first in anticipation of a 1 point rise in base rates, sterling fell back from the day's highs after the Bank of England's signal. The failure of European central bank intervention to reverse sentiment towards the dollar and expectations of an imminent rise in West German borrowing costs also encouraged market speculation that a further rise in borrowing costs may be needed to contain inflation.



The Treasury, however, pointed out that the 2 percentage points increase in interest rates since the beginning of this month represented a significant tightening of policy. It also indicated that it was anxious to maintain the recent trend of confining moves in borrowing costs to a ½ point.

Interest rates have moved an unprecedented 12 times over the last year, and 11 of those shifts have been of ½ point.

It also sought to distance the base rate move from the trade figures, repeating the official view that the current account posed no particular problem for the economy as long as it was readily financed by overseas investors.

Mrs Thatcher's comments, however, revealed private official concerns that pace of deterioration in the current account is not sustainable. It is now widely accepted in Whitehall that the current account deficit for this year is likely to be twice the £4bn forecast by the Treasury only 2½ months ago.

At Westminster there was no feeling of crisis, or expectation of any summer package, but Tory MPs have become more concerned about signs of a pick-up in inflation. Consequently, many MPs believe that further increases in interest rates may be necessary.

In the House of Commons, Mr Neil Kinnock, the Labour leader, asked: "If everything is going so well why are interest rates going up?." Earlier, Mr Gordon Brown, Labour's Shadow Chief Secretary, said, it was "the mark of a Chancellor who has lost his way that yesterday we had the worst trade figures and today we have the seventh interest rate change since the budget". The price of the budget tax cuts would be higher mortgage rates in coming months.

Deputising for the Prime Minister and clearly reading from a prepared brief, Mr John Wakeham emphasised that control of inflation was paramount and that the tightening of monetary conditions was in line with earlier actions.

In financial markets, sterling closed at $1.7190, up from $1.7030 on Monday and gained 1.25 pfennings against the D-Mark to end at 3.11. The sterling index was 0.8 points higher at 75.1 but well below the high of 75.5 just before the Bank's announcement.

Consumer goods sales 'up 13%'

BY PHILIP RAWSTORNE

SALES OF consumer goods in the home rose by 13 per cent to £517m last year according to the annual survey of the Direct Selling Association (DSA).

The DSA survey, published yesterday, estimates that the total of independent, self-employed salespeople has now risen to 385,000, some 52,300 of whom are full-time.

Mr Richard Berry, DSA director, said the industry represented 250,000 small business start-ups, "most of which were made possible by initial capital investment of under £25. We believe our industry is playing a valuable role."

Personal products such as cosmetics, perfumes, jewellery and ladies' and children's clothing accounted for £271m of the sales, about 52 per cent of the total.

Sales of household items totalled £142m

Arms groups given £1bn extra cover for exports

By Peter Montagnon

BIG DEFENCE contractors are to be given an extra £1bn in export credit support from the Government to help them win more overseas business.

The support takes the form of special authorisation for the Export Credits Guarantee Department to provide export credit guarantees on large defence orders to countries where the availability of cover is normally limited.

Mr Alan Clark, Trade Minister, said the arrangements will help defence companies at a time of "fierce competition." Exports of defence equipment run at around £3.5bn a year, giving Britain a 12 per cent share of the world market and placing it third among arms world exporters after the US and Soviet Union.

The two main markets for UK defence sales are the US and Australia, for which export credit cover is not normally sought. Problems can arise, however, when large orders are placed by countries where the ECGD normally has only small underwriting capacity.

A potential beneficiary of the scheme is Jordan, for which the ECGD routinely provides small amounts of export credit cover. The Middle Eastern country has been considering ordering Tornado fighter aircraft made by British Aerospace with its German and Italian partners.

Had this order proceeded before the scheme was in place it could have taken up the ECGD's country limit on Jordan, making it difficult for non-defence exporters to secure cover.

Mr Clark said the new authorisation would exempt the ECGD from neither its normal underwriting criteria nor its aim of operating at no long-term cost to taxpayers.

Countries facing economic difficulties such as have rendered them ineligible for export credit cover will not be able to claim from the scheme. Ministerial approval will be required for all deals and they will be entered separately from normal transactions in ECGD's accounts.

Foreign Office charts peaceful routes for British tourists

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

IN AN effort to salvage the remnants of Britain's reputation abroad after the recent bout of football hooliganism in West Germany, the Foreign Office yesterday launched a series of TV shorts giving advice to British travellers abroad.

Produced by the Central Office of Information at a cost of £150,000 on the theme "Get it right before you go", the 30-90 seconds films are being distributed for free transmission to the BBC and independent TV companies, in the hope that they will be broadcast in unsold commercial airtime and other breaks.

Although seasoned travellers will marvel at the simplicity of some of the advice offered – "first make sure you can get back; take enough money; beware of pickpockets" – Mr Tim Eggar, Parliamentary Under-Secretary of State, emphasised that it was all based on experience of the trouble travellers get into.

British tourists, it seems, are more inclined to getting tight, rather than getting it right, both before and after boarding their aircraft to Benidorm, Majorca and the Greek Islands, although Mr Eggar claims the Spanish authorities have assured him that "they are no worse than anyone else, they are just more numerous."

Numerous they certainly will be this year, when 27.5m Brits are expected to roam Europe and other more distant parts of the world, of whom 8m are due to go to Spain alone.

The need for good advice is demonstrated by the fact that the number of British citizens currently languishing in foreign jails is more than 1,900, an increase of 36 per cent over 1987. Of these, about one-third are being held on drug charges (61 per cent in the case of Spain and as much as 74 per cent in France.)

Little wonder that the Foreign Office's "do's and dont's", together with urging travellers to make sure they have the necessary health and accident insurance before leaving home, put particular emphasis on avoidance of drug offences.

As the TV short points out, you may get away with a prison sentence of several years in some European countries for a minor drug offence, but in Malaysia and Thailand you face a death sentence.

The Spanish authorities, for one, "have taken their precautions", in the words of a much-employed Continental euphemism. "Operacion Verano 88", under which an additional 2,050 police, 1669 civil guards and 180 "specialists" will augment existing forces along the Costa Brava, Costa Blanca, Costa del Sol, Balearic Islands and several airports including Madrid, will fully enter into force on July 1.

Although the Foreign Office has set out the conditions under which British consuls can give help, it emphasises that "there's no such thing as a consular magic wand." As a special leaflet points out, consuls can issue emergency passports, contact relatives and friends, advise on how to transfer funds and, in a real emergency, advance money against a sterling cheque of £50, "supported by a banker's card."

However, they definitely cannot fulfil such typical requests by British tourists as to complain to the French authorities that French motorway toll machines do not accept British coins, investigate why postcards posted in Italy do not arrive in the UK, pay on-the-spot traffic fines or accept the medical consequences of "picking up bar-girls in Africa."

BP raises N Sea oil estimates

BY STEVEN BUTLER

BRITISH PETROLEUM said yesterday that 8bn barrels of recoverable oil can still be found in the North Sea, equal to nearly half the amount already discovered there.

BP's estimate suggests the North Sea to have a longer economically productive life than is generally forecast. It is also more optimistic than estimates recently issued by the Department of Energy, which expects future discoveries of between 2.3bn and 17bn barrels.

BP estimates there to be a 95 per cent certainty of there being 2.7bn barrels of oil in a range of probabilities up to a 5 per cent certainty of there being as much as 17bn barrels.

Mr Basil Butler, a managing director of BP who chairs BP Exploration, said that production of future smaller fields had been made viable by technological advances since the 1986 collapse in oil prices.

Mr Butler was more positive about the prospects for gas discoveries. BP estimates 40 trillion (million million) cu ft of future discoveries, compared to the Department of Energy estimates of between 9 and 37 trillion cu ft of gas. This is equivalent to 7bn barrels of oil and compares to 65 trillion cu ft of gas discoveries in the area.

Mr Butler said that gas production was expected to meet UK demand into the next century.

Despite the size of expected oil discoveries, the North Sea was not expected to yield any large new fields of more than 500m barrels. Discoveries of between 100m and 500m barrels were being added annually, however, because of improved seismic technology and better understanding of North Sea geology.

Mr Butler said that technology had advanced such that offshore fields as small as 5m barrels could be considered profitable. Fields of less than 100m barrels were previously dismissed as uneconomic.

In Brief

Britons to visit Soviet chemical weapons site

A British team is due to fly to Moscow today for the first visit to Soviet chemical warfare facilities by a delegation from a single western country, writes David White.

The visit is part of an exchange proposed by the UK two years ago. A Soviet team went in May to Britain's Chemical Defence Establishment at Porton Down, Wiltshire. British officials said the Soviet site at Shikhany, 500 miles south-east of Moscow, was seen as part of a chemical arms production process, while the UK abandoned its offensive capability in the 1950s.

The visits are aimed at building trust while 40 countries pursue talks in Geneva on a worldwide ban on development, production and stockpiling of chemical weapons.

Airport profit

Birmingham International Airport, Britain's fifth busiest with 3.07 per cent of the passenger market, ended its first year as a public company with an unexpected pre-tax profit of £2.59m.

Shipbuilders sale

The Government hopes to sell the rest of British Shipbuilders within the next year, Mr Kenneth Clarke said. The sale of the group's Govan yard on the Clyde to Kvaerner Industrier of Norway was confirmed on Monday.

Microwave TV claim

Microwave television could supply up to 30 TV channels for between 80 and 90 per cent of people in the UK at modest cost, said Mr Andrew Glasgow, managing director of Marconi Communications Systems.

Cement price rise

Blue Circle, Britain's biggest cement maker, said it was raising cement prices by £2.65 from August 1 to £46 a tonne after rises of about 5 per cent from other leading UK groups.

FT LAW REPORTS

UK contravenes EC VAT obligations

COMMISSION OF THE EUROPEAN COMMUNITIES v UNITED KINGDOM

European Court of Justice (Lord Mackenzie Stuart, President; G Bosco, O Due, JC Moitinho de Almeida and GC Rodreguez Iglesias, Presidents of Chambers; T Koopmans, U Everling, K Bahlmann, Y Galmot, CN Kakouris, R Joliet, TF O'Higgins and FA Schockweiler, judges): June 21 1988

A PERSON supplied with goods and services in the course of economic activity is not a "final consumer" for whose benefit transitional exemptions from turnover tax may be applied under EC law; and accordingly, in applying a zero rate of value added tax to supplies of goods and services to industry, employers, commercial undertakings and construction work other than housing (where the supply is zero-rated for clearly defined social purposes), the UK is in breach of its obligations under the EC Treaty.

The European Court of Justice so held when declaring that by continuing to apply a zero rate of VAT to supplies of certain goods and services, insofar as they were not provided to final consumers, the UK had failed to fulfil its EC obligations.

Article 28(2) of Directive 77/388/EEC of May 17 1977 on the harmonisation of the laws of member states relating to turnover taxes ("the Sixth Directive" provides: ". . . exemptions . . . in force on December 31 1975, and which satisfy the conditions stated in the last indent of article 17 of the Second Council Directive of April 11 1967, may be maintained until a date which shall be fixed by the Council . . ."

Article 17 of Directive 67/228/EEC of April 11 1967 ("the Second Directive") provides that members states may: "provide for . . . exemptions . . . Such measures may only be taken for clearly defined social reasons and for the benefit of the final consumer . . ."

THE COURT said that article 28 of the Sixth Directive laid down transitional provisions for the progressive adaptation of national legislation in certain respects. On the basis of Article 28(2), the UK had continued to apply a system called "zero-rating".

Originally Schedule 4 to the Finance Act 1972 contained a list of 17 groups of goods and services which were zero-rated. That list was incorporated almost in its entirety in Schedule 5 to the Value Added Tax Act 1983.

The Commission considered that certain of the zero reates provided for by UK legislation did not comply with the criteria in the last indent of article 17 of the Second Directive. On September 4 1984 it delivered a reasoned opinion. Since the UK did not comply with that opinion, the Commission brought the present proceedings under article 169 of the EC Treaty .

The UK contended there was a political motive behind the application, which was not a proper basis for an action pursuant to article 169.

The argument could not be upheld. In the context of the balance of powers between the institutions laid down in the Treaty, it was not for the Court to consider the objectives. Its role under article 169 was to decide whether the member state had failed to fulfil it obligations as alleged.

The Commission did not dispute the legality of the zero-rating system in general. It submitted, however, that the requirements laid down in article 17 of the Second Directive, which provided that exemptions might be made only "for clearly defined social reasons and for the benefit of the final consumer", were not met with regard to certain groups of goods and services included in Schedule 5 to the 1983 Act.

The identification of "social reasons" was in principle a matter of political choice for the member states, and could be the subject matter of supervision at Community level only insofar as, by distorting that concept, it led to measures which, because of their effects and true objectives, lay outside its scope.

Under the general scheme of VAT the "final consumer" was the person who acquired goods or services for personal use. "Final consumer" could be applied only to a person who did not use exempted goods or services in the course of economic activity.

The provision of goods or services at a stage higher in the production or distribution chain, which was nevertheless sufficiently close to the consumer to be of advantage to him, must also be for the benefit of the final consumer so defined.

The zero rates at issue were:

A. Group 1 – Food (animal feeding stuffs, seeds, live animals yielding or producing food for human consumption).

All those supplies contributed to the production of substances intended for human consumption and were sufficiently close to the final consumer to be of advantage to him. Moreover, the negative effects of any taxation of those products on food prices, increases in which were particularly sensitive for the final consumer could not be neglected. It followed that with regard to the products of that group the UK's alleged failure to fulfil its obligations had not been established.

B. Group 2 – Sewerage services and water.

The Commission's submissions concerned services provided to industry regarding the emptying of cesspools and septic tanks made necessary by the absence of mains drainage on the one hand, and the supply of water to industry on the other.

In neither of those cases could the provision of services to industry be regarded as fulfilling the second criterion in article 17, since industrial users were not final consumers. The UK's failure to fulfil its obligations in respect of those products and services was therefore established.

C. Group 6 – News services.

The Commission's submissions concerned the supply of news services to undertakings which themselves provided services which were not zero rated, such as banks and insurance companies.

Since those undertakings could not be regarded as final consumers, the second criterion in article 17 was not fulfilled. The UK's failure to fulfil its obligations in respect of those services was therefore established.

D. Group 7 – Fuel and power.

The Commission challenged the zero-rating of supplies of fuel and power other than to final consumers.

In defence the UK relied essentially on the negative effects from the social point of view of any taxation of supplies of fuel and power, in particular to schools and hospitals.

While the Court did not call into question the social measures underlying that policy, it pointed out that the services were not provided for the benefit of final consumers, since final consumers derived only very indirect advantages from zero rating. They therefore did not fulfil the second criterion of article 17.

The UK's alternative argument was that the difficulties in administering the tax if only supplies to final consumers were zero rated would probably be insurmountable.

If it considered such measures could not be implemented, it must refrain from applying zero rates. The UK's failure to fulfil its obligations was therefore established.

E. Group 8 – construction of buildings.

The Commission challenged the zero rating of all the items in Group 8 with the exception of local authority housing.

The measures adopted by the UK in order to implement its social policy in housing matters, that is, facilitating home ownership for the whole population, fell within the purview of "social reasons" for the purposes of article 17.

By applying a zero rate to activities with regard to housing constructed both by local authorities and by the private sector, the UK had not contravened article 17.

However, activities relating to the construction of industrial and commercial buildings and to community and civil engineering works were not for the benefit of the final consumer.

It followed that the UK had failed to fulfil its obligations insofar as it applied a zero rate to services in relation to the construction of industrial and commercial buildings, and to community and civil engineering works.

F. Group 17 – Protective boots and helmets.

The Commission submitted that the supply of those products to employers for the use of employees could not benefit from zero rating. The UK argued they were not part of a production process and the employer must be regarded as final consumer of the goods.

In the light of the considerations set out above, it must be held that the person to whom those goods were supplied could not be regarded as a final consumer. The UK's failure to fulfil its obligations in that respect was therefore established.

The Court declared that by continuing to apply a zero rate of VAT to supplies of water and sewerage services to industry, of news services to undertakings such as banks and insurance companies, of fuel and power to non-final consumers, protective boots and helmets to employers, and of goods and services for construction of industrial and commercial buildings and community and civil engineering works – insofar as those supplies were not provided to final consumers – the UK had contravened the Sixth Directive and had therefore failed to fulfil its obligations under the Treaty.

By Rachel Davies
Barrister

When it's best to promote or recruit outside

BY MICHAEL DIXON

SUPPOSE you are chairman of a company which has only just twigged that all its top managers below director-level will retire within a year. After a boardroom debate on how best to fill the posts becoming vacant, your 12 fellow directors vote as follows:

By internal promotion – 6.

By outside recruitment – 6.

You of course have the casting vote. So, apart from firing the head of the manpower planning department, what do you do?

At which juncture, the Jobs column expects you readers will have severally split yourselves into three main groups, two of them smaller than the third.

A few will have opted firmly for one or other of the stated options. Another few will favour compromise by way of filling some proportion of the senior jobs with people already on the payroll and the rest with external recruits.

The biggest group will be the wiseacres who have decided you have not been given enough information. Or at least I hope the wiseacres are the biggest group, because that is surely the right riposte.

OK then, since you're so clever, answer me this one: What *sort* of information would give you the best primary guide to making the right decision?

Now here I expect the sort most of you will have opted for is the track records of present appropriately experienced employees in the ranks below the folk nearing their pension. The records enable you to assess for which senior posts the company has adequate internal candidates, and for which it has not.

That is certainly the sort of data the Jobs column would have chosen, anyway, until it met Doug Cowherd from the business school of Michigan University in America. He was in London the other day as the university's representative in a joint venture it runs with Hay Management Consultants and the Strategic Planning Institute, which they call the Organization and Strategy Information Service.

What "Oasis" does (for a price, of course) is a bit complex. It starts by gathering information, not so much on companies, as on the particular "business units" of which a company is composed. The data collected is detailed enough for each unit to be classified by a wide variety of attributes. They include how far it is headquarters-dominated or autonomous, its technology type – such as flexible automated plant in the case of a unit making electronic controls, and process plant for a commodity-chemicals manufacturer – and whether the unit's business is in the growth stage of the so-called product-life cycle, or in the mature or the declining stage thereof.

The data also covers details of each unit's top three ranks of managers. Mr Cowherd said that what is meant by "managers" is not the executive superstars who figurehead organisations, but people directly in charge of the supply of goods and services. One of the gauges by which the managers are classified is whether they are "insiders" in the sense that they have been with the unit for at least three years, or "outsiders" whose stay in it has been shorter.

Oasis has so far gathered and computerised such data on more than 150 business units and their managers, of which some 30 are in Europe with the bulk of them in the United Kingdom. And at the touch of a button, it can be seen which of their various traits are statistically associated with profitability and other measures of effectiveness.

Which brings us back to the point where you, as head of the company with the job-filling problem, are deciding what sort of information will give you the best primary guide to deciding between internal promotion and outside recruitment.

It so happens that if you asked Mr Cowherd, who is admittedly not altogether disinterested in the matter, he would say you needed Oasis's data. For it shows that the success of businesses of different kinds and at different stages of their product-life cycles is significantly linked with the balance of insiders and outsiders among their managers. In broad terms, the links are as follows.

At the growth stage of the cycle, businesses with above-average return on investment tend to have an above-average proportion of managers who arrived within the past three years. Oasis speculates that the reason is that a predominance of fairly freshly imported executives provides a readiness to consider new ideas and approaches, which in turn gives a versatility of much value in a turbulent new market.

When the cycle moves into the mature stage, higher return on investment is linked with a higher than average proportion of managers with over three years' service in the unit.

"Maturity typically means that things are all pretty stable, including the competition," Doug Cowherd said. "What makes for good management in that time is making good money with what's already there. The core of it is cost-cutting, but there's also what might be called adding complexity by widening product lines etc. It puts a premium on having managers who're deeply familiar with the detailed ways their plant and workers and customers operate, so they know precisely what they're doing in that specific unit."

But when decline sets in, the position switches back. High return on investment is again linked with a preponderance of outsiders.

"We think that's because you once more need a balance of management open to fresh ideas, and not wedded to established methods and political coalitions. But there's a need for caution.

"If the business has gotten highly complex, you can be in trouble if you hand too much power over its running to new people who aren't acquainted with the subtle details. No matter how good their previous track records were, they won't be able to teach each other things that none of them knows."

Males welcome

NOW to a job which, for the first time I can remember, makes it advisable for me to emphasise that applications from men will be welcome. It is the post of company accountant with Virago Press, operating profitably on a £2m-plus turnover under the women directors who headed a management buy-out last year.

Reporting to Harriet Spicer, the administrative managing director, the recruit will be responsible for developing and running the publishing house's computerised financial and management accounting controls and procedures. Candidates should be qualified accountants with success in such work at a managerial level, preferably in publishing.

No salary is quoted, but my estimate is around £20,000. Other benefits for negotiation.

Application forms obtainable from Ms Spicer at 20-23 Mandela Street, London NW1 0HQ; tel. 01-383 5150.

Personal finance

A MANAGER is wanted by Richard Henderson, managing director of City-based Henderson Financial Management, to run and extend its investment and connected services for private clients. Candidates should have demonstrable leadership ability as well as consummate skill and knowledge in the work involved.

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Inquiries to 3 Finsbury Ave, London EC2M 2PA; tel 01-638 5757, fax 01-377 5742.

Australia

LASTLY down under to a post offered through Dudley Edmunds of the Roger Parker Organisation, who promises that applicants who so request will not be named to the employer at this stage.

The job, in Sydney, is to lead an Antipodean bank's 20-strong dealing team in foreign exchange, money and products derived therefrom. Candidates should have success in the same work plus people-management skill that has already raised them to at least the verge of chief dealer responsibility.

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The appointment offers the usual benefits associated with a major company including profit sharing and share option schemes. Relocation assistance available if needed.

Please write in confidence enclosing a full CV to:
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Candidates, probably in the age range 38-45 years, will have a legal or trust qualification and possess a minimum of 10 years' broadly-based experience of trust management. Personal qualities of discretion and initiative are deemed to be essential, as is a strength in man management.

This senior appointment will be supported by a highly competitive tax free salary and benefits package, and offers genuine challenge and opportunity not necessarily confined to the region.

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MANAGING DIRECTOR

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GPA Investments Limited will identify, negotiate, and manage investment opportunities, primarily in aviation related services outside the group's core businesses.

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Comprehensive applications should be sent in confidence to:

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Probably aged in your mid 20s, a minimum of two years' experience in investment analysis, excellent communication skills and a high level of initiative will prove essential. An interest in personal computer applications would also be an asset. Previous experience of the UK market is not a pre-requisite but we're looking for someone who learns fast, has a disciplined approach to analysis and who can become an *effective member of the team.*

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If you have the skills and potential we're looking for, please send your CV to Janice Hill. Alternatively, ring or write to her for an application form at: Allied Dunbar, 9-15 Sackville Street, Piccadilly, London W1X 1DE. Tel: 01-434 3211.

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You should be around 30 years old with at least 3-5 years' experience preferably in accounting or possibly in a company secretarial/legal advisory role. Knowledge of COCOM or EAR commodity control agreements is an advantage and familiarity with a technology-based industry preferable. In addition, you should have the maturity to handle significant negotiations and a strong awareness of developments in the fields of finance and marketing.

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Please write with full career details to Sally Poulten, Research Machines, Mill Street, Oxford OX2 0BW.

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We need a Director of Customer Services to help our customers get the best out of our service. You will be responsible for conducting and actioning regualr service review meetings with our customers' back office management, introducing new services and enhancements and helping new customers joining the PAL service. You will be invited to join and participate in our Board of Management. The job is based in our City office, although you will need to spend a day or two per week at our head office in Carshalton.

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Action

Please send your CV to Bob Gunning at Austin Knight Selection, 17 St. Helen's Place, London EC3A 6AS, or phone him for further details on 01-588 6452. Please note that anyone employed by a PAL customer should not apply without their employer's consent.

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ARTS

Television/Christopher Dunkley

Changes on the air for British journalism

British television journalism is moving towards a revolution the like of which has not been seen in the history of British broadcasting. I am not referring to the technical advances and Thatcherite manning policies which make such a dramatic difference to the collection of news and current affairs material. They have already occurred. (A news crew visiting my house recently to record an interview an hour ahead of the main evening bulletin comprised lighting-cameraman, sound man, and interviewer/director: three, where eight or nine would have arrived only a year or so ago.)

Nor am I referring to the fact that the new transmission technologies are going to cause a big increase in the quantity of news and current affairs available, though that is certainly predictable. That will happen whoever the successful channel operators are, whatever transmission systems they use, and however large the proportion of game shows, soap operas, sport and pop music they offer: there will still be a major expansion in television journalism between now and 2000 AD (just 4,202 days away).

But even if nobody had ever invented video or ENG, satellite or cable, DBS or D-MAC, we would still be looking forward to a revolution in television journalism for two other reasons. First, the BBC's new broom: Deputy Director-General John Birt may have relinquished his title as Head of News and Current Affairs in favour of his deputy, Ron Neil, but that will presumably make little difference to the great Five Year Plan.

This provides for a £100m purpose-built HQ for BBC journalism at White City, bringing together BBC news and current affairs for the first time, an extra £62m to be spent on news and current affairs in the next five years; the establishment of new specialist units covering politics, social matters, economics/business, and foreign affairs; and new regular flagship programmes in each of these areas. The sits.vac. columns of the broadcasting press have been dominated for months by huge BBC advertisements resulting from this scheme. The plan is also famous for involving a – supposedly – radically different approach to television journalism, with more emphasis on prior research and analysis and less on flair and instinct.

Even though Mr Birt was appointed more than a year ago it is still not possible to tell from watching the screen whether the changes resulting from this philosophy will be great or small, general or patchy, good or bad. My complaint here four months ago that *Newsnight* had begun to feel like a WEA lecture now looks unfair, though the output during the week in question seemed to justify the comment at the time.

I understand it may be two years or more before all the new regular specialised programmes are on the air, and until we see those it will be difficult to decide whether the BBC's journalism is being improved or merely expanded. At present several of the long established series seem to be doing rather well. *Brass Tacks* has become a more tough and punchy programme, covering the sort of subject which used to be the preserve of *World In Action*. Last week's edition, on Westminster Council's handling of the homeless, and the "intentionally homeless," was an exemplary piece of observational journalism.

So, too, was this week's *Panorama* in which David Lomax presented a conventional and admirably lucid report on the way the market economy is spreading concrete across the leafy Tory heartlands of the south while failing to take development to the north. You could not ask for a more unemotional or objective piece, yet it is difficult to imagine that many Conservatives at Westminster (apart from supporters of Mr Heseltine, who took the opportunity to slide languidly into the driving seat of the anti-Ridley NIMBY Not In My Backyard bandwagon) will have liked it very much.

Good though these programmes were, however, they looked and sounded much like their predecessors of 10 or even 25 years ago. There are plenty of people in television who will consider that no bad thing, but – and this is the second of the two reasons mentioned above – there is also within the industry, a hunger for and a belief in the need for, something new. Here we do have an example already available and, since it is commanding an intense degree of attention within the broadcasting world, and looks set to become the model for numerous copies, it is worth considering in some detail.

While the BBC is aiming for more research and analysis Channel 4's Network 7 maybe the blueprint for the future

The series is *Network 7*; it was first produced for Channel 4 by Janet Street-Porter when she was with ITV (she is now at the BBC producing *DEF II* which has certain similarities); and the editor of the new series, now being transmitted, is Charles Parsons. It lasts two hours, is broadcast live with numerous recorded inserts on Sunday mornings, and then repeated late on Monday nights.

Its main target is clearly the young, presumably from about 14 to 24, and its presentation, by an army of young reporters, is fast and furious. It is unusual for items to last more than five minutes, and quite normal for them to be as brief as one or two minutes. The past few weeks have included reports on cosmetic surgery, bull fighting, drugs, speed-climbing, sex in China, and the growing popularity of opera . . . and a great many free promotional clips from forthcoming American films.

Subjects are sometimes split into short sections and shuffled through the programme, or even through several programmes. Thus we have seen brief reports spread over consecutive weeks from a party of young people left to survive on a desert island; and this week several live reports from the gang warfare front in night-time Los Angeles.

As with tabloid newspapers, there is a keenness not merely to observe events but to create them. The desert-island stunt is one, observing guinea-pig volunteers going without sleep for 72 hours has been another. Telephone polls are much favoured, on capital punishment, for instance, and on whether it was right for a mother to report her son to the police for possessing cannabis. (Astonishingly and depressingly the majority supported her.)

The programme has gained most notoriety, however, not for content but for style. In the early days the passion for laying the camera on its side during interviews, covering the screen in lightning flashes, and playing with the colour separations became irritating. There is less of that now, but written captions are still used perpetually, not so much for conveying information (they are frequently removed before they can be read) but as a stylistic device. Given the British hatred of sub-titles this is a bizarre choice.

Network 7 has its strengths. Its deeply personal interviews with people such as Stephen Fry and Ruby Wax, in "Room 113," are the most frank since Freeman's *Face To Face* in the late fifties. Its fashion coverage, using mini film-features and then returning to freeze frame on individual items, is (to me, anyway) wholly original. Its discussions on ethical matters sometimes have the freshness which only youth can provide.

Yet it would be a disaster if this series really were to be taken as a model for television's new journalism. The flashy appearance has the same ad-land attraction as the underground press of the sixties – and precisely similar drawbacks. Lemon printing on tangerine paper may make a pretty impression but you cannot read it: communication quotient, nil. The vivacity and pace of *Network 7* may feel fine, but good journalism can never be achieved by production techniques, no matter how original, it comes solely from good journalists.

The journalism in *Network 7* is shattered into such tiny pieces (the effect of grasshopper minds, or part of the cause?) that its quality is hard to judge. But when you finally tie it down nearly all of it suffers from hackneyed thinking. That the captions this week habitually misspelled "refrigerator" and "Thomson" is ominous but less important than the superficiality which characterised the coverage of the LA gangs and the Northern Ireland question.

There is going to be a huge increase in television journalism in the next decade, and doubtless much of it will be "tabloid." But those, young and old, who look to television journalism for more than an emotional buzz or an impressionistic blur may have to keep their fingers crossed and their licence fees paid in the hope that the BBC sticks to its last.

Alastair Muir

Gwyneth Jones

Elektra/Covent Garden

Max Loppert

The drab old Covent Garden production of Strauss's greatest opera, now in its 35th year of existence, has returned for a final revival. (In two years' time Götz Friedrich's new production will be unveiled.) It is strange indeed that this banal setting should have provided the backdrop to so many of the very finest entries in the house's postwar annals; and Monday's *Elektra*, a vehicle for some splendid accounts of the opera's leading roles, added a noble final chapter to the strange tale. Or perhaps not so strange – some would say that performers vocally equipped for and possessed by their roles is all the opera really needs. There is certainly material to lend weight to that conviction here.

Gwyneth Jones, who has graduated through the ranks of this production, from one of the serving-women via Chrysothemis to the title role, makes Electra perhaps the most utterly compelling of all her many Royal Opera performances. She is a singer and an actress in thrall, and it keeps hold on her, and us, from first wild stare to last frenzied dance. The willingness to give absolutely everything to a part, which on occasion has proved too generous a gift, is here a great one.

This is a woman teetering on a fine line between sanity and madness, swept away in the end by the dance of death that always threatened to invade her senses. The vulnerability and warmth ache beneath the battered surface, and their revelation is almost too painful to bear. The singing hasn't the spear-point brilliance of Nilsson's nor the absolute security of Amy Shuard's at her well-remembered best. Phrases are regularly broken for breaths, and notes too impetuously taken judder and wobble, but the grandeur and selflessness of Dame Gwyneth's dramatic perceptions make the imperfections easy to bear, and some of Strauss's most tidal-wave phrases – "Der ist selig, der seine Tat zu tun kommt" is one such – roll out with thrilling freedom.

For this magnificent Electra alone, which had the whole house on a roar at the curtain calls, this would be a show not to be missed; but there is more to the revival than simply the title role. Helga Dernesch (also a quondam Royal Opera Chrysothemis) sings Clytemnestra with darkly alarming beauty of tone, and seems to preserve the glimmers of a great physical beauty in her demeanour, in spite of fearful lurches and tremors. A family's intimate knowledge of each of its members' deepest secrets is one of the things this opera is most terrifyingly "about;" and the confrontation between mother and daughter was here intimate as well as terrifying.

Willard White's first London Orestes had great nobility and distinction of voice and manner – the forthcoming Wotan in Glasgow is greatly looked forward to. The Chrysothemis, Ruth Falcon, was less vivid, as is the fate of many Chrysothemises (Miss Falcon's words lack sharpness), but the *strahlend*, full-blown quality of the tone was just right. The conductor, Gerd Albrecht, is an authoritative *Elektra* conductor rather than an inspired one – no great revelations of colour and detail emerge from the pit, but the singers are excellently supported, and it is the singers who lend this performance its burst of glory.

Eyre's plans for the National

Richard Eyre, the incoming director of the (Royal) National Theatre, publicly launched his first season yesterday, with change and continuity.

As well as a "very theatrical programme," performed under a new directorial approach, he harked back to the perennial problem of a shortage of cash. Indeed this week the NT discovered that it might not get its promised 2 per cent increases on its current Arts Council grant of £7.8m over the next two years. If this happens, and if box office receipts and sponsorship plans fall below target, the announced programme may be cut back.

It is quite a bold assembly of plays. Eyre's dramatic principle is "the expressiveness of theatre – visual images as much as language." Among the highlights of a season running from the twelve months from September are a new David Hare play The Secret Rapture; about two sisters re-acting to the death of their father; a Hamlet with Daniel Day Lewis in the title role and Judi Dench as Gertrude; Richard Eyre directing Jonson's Bartholomew Fair; a double bill from Alan Bennett – his TV play An Englishman Abroad with another short play about spies based around Anthony Blunt, with Bennett playing Blunt; Lulu; Sean O'Casey's three Dublin Plays directed by Peter Gill; and, looking to Europe, the French director Jerome Savary let loose on Le bourgeoise gentilhomme and Nuria Espert of Spain directing Celestina by de Rojas and starring Joan Plowright.

Among the minor idiosyncrasies will a twenty minute new Pinter; a revival of Wesker's Roots, which will be seen in schools; and David Mamet's Broadway hit Speed-the-Plow, minus Madonna.

Eyre is doing away with the company system, with teams of actors under a particular director performing a group of plays. He favours a two pronged approach, with a slowly evolving troupe of National Theatre actors to service the Olivier and the Cottesloe, while the Lyttelton is "project based" with just three plays in the repertoire at one time. Here will be nurtured the productions that might go on tour, at home and abroad, or transfer to the West End, although it will be far from overtly commercial.

It will also be home to visiting productions from the provinces and overseas, although Eyre's first visit from an outside theatre company, Field Day from Londonderry with a new Brian Friel play, Making History, starring Stephen Rea, will take place at the Cottesloe. In the 1989-90 season there will be another international festival at the National.

Richard Eyre's first season will not appeal greatly to the American tourist, but it is attractively enigmatic. It is unfortunate that, along with his executive director David Aukin, Eyre will be as much concerned with improving the acoustic in the Lyttelton and Olivier theatres, shoring up the roof and courting the essential sponsors, as with running the theatrical flagship of the nation.

Antony Thorncroft

Mr Bolfry/Royal Lyceum, Edinburgh

Michael Coveney

The centenary year of James Bridie's birth is causing problems for his reputation, which has snoozed undisturbed for a decade or two. It has now been awoken, not all that happily, by two major Scottish revivals of plays from the 1940s, both fruit of his creative partnership with the late Alastair Sim.

Following the macabre medicinal murderousness of *Dr Angelus* at the Glasgow Citizens', Bridie's home theatre, the Edinburgh Lyceum has produced one of his Shavian discussion pieces on a pet theme, the necessity of evil in the overall scheme of things. In 1943, it was probably too early to be appalled by Mr Bolfry's glib reference to the inevitability of Nazism. As James Agate nearly said, there are no flies on Bridie's Devil, but there are bats in his Bolfry.

The diabolic Bolfry arrives in the Highland manse of the rigorously Calvinist minister, Mr McCrimmon, after a playful seance initiated by McCrimmon's emancipated, critical niece and two billeted soldiers, one a public school rationalist, the other an impoverished Jewish Cockney from the Borough Road cheerily nicknamed "Conk."

The first of four scenes establishes this trio's "modernity" in dialogue of creaky tiresomeness before Bolfry, who claims to have a kirk of his own in Hell, engages McCrimmon in a central, unsubtle debate that sounds like a leftover Shavian preface with all jokes deleted. Bolfry quotes the gospel of William Blake and claims a turn in McCrimmon's pulpit before being chased from the manse into the night. We might have called this "Manse and Super-Manse" remarked the affable Ivor Brown.

Ye gods and little fishes, we might not. The crude theocracy of McCrimmon is too big a target for Bolfry and the "young moderns." The interesting area of the play lies in the glimmer of moral schizophrenia intimated by McCrimmon's denial of the cabalistic intrusion. He claims a fit of mental aberration while under the freak influence of alcohol. Bolfry and he wear identical ecclesiastical cloths. They are a divided religious self. A suspicion of murder, or at least of destructive self-denial, hangs about the resolution.

But Bridie's hidebound, conventional mode of theatre is unable to translate this element into anything that crackles or flares. The evening subsides into dullness, with the sole, twee effect of Bolfry's disappearing umbrella (devised by Sim after Bridie had forgotten a loose end) to plant a seed of doubt in the Calvinist closed-ranks conspiracy.

Ian Wooldridge's competent direction and Colin Winslow's unsurprising Larach interior succeed only in making Bridie sound dated and respectable. James Cairncross plays McCrimmon as an upright greybeard of unchanging granite, with a heart of stone and feet of concrete. This is quite wrong, and if not wrong, then certainly boring. His diabolical alter-ego is less than spell-binding in Victor Greene's puckishly over-emphatic intonations.

Liam Brennan and Steve Owen are the soldiers, eagerly setting about lumpen material, while Penny Bunton is notably quick and razor-witted as the sympathetically sensible niece who believes the kingdom of God is within all of us. She sails along breezily until Bridie loses interest in her and withdraws her right to say any more on the subject once the debate proper is under way. Shaw would never have been so mean, but the Scots sometimes are.

Focus on Dance in Scotland

The second *Focus on Dance* festival will take place from July 3-10 throughout Strathclyde, consisting of performances, classes, and workshops presented by 70 companies from France, the Netherlands, the Soviet Union, Denmark, Germany, Africa and India as well as the UK.

Lyttelton salutes Armstrong

This year's Louis Armstrong anniversary concert will be held on Tuesday July 19 at the Elizabeth Hall in London, featuring the band of Humphrey Lyttelton (this year marking his 40th anniversary as a bandleader) and guests Wally Fawkes (clarinet) and singer Carol Kidd.

On the Razzle/RSAMD, Glasgow

Rodney Milnes

Robin Orr's new opera, his third, was commissioned by the Royal Scottish Academy of Music and Drama (in association with the Scottish Arts Council) and first performed there on Monday in the New Athenaeum Theatre. The horseshoe auditorium, approved for drama by Michael Coveney in May, has good, clear, student-voice-friendly acoustics. Sightlines, though, are scarcely audience-friendly: those not lucky enough to be in the centre of the circles have a severely restricted view.

The problems – and they loom large – of Orr's adaptation of Tom Stoppard's adaptation of Nestroy stem from the basic incompatibility of music and farce. (Yes, yes, Offenbach, but his successful farces were in one act, not three, and with three or four characters, not 24.) The problems are reflected in the ungainly proportions of Orr's three acts. The first, at over an hour, is wholly concerned with setting up the laborious plot; it is at once too slow, simply through the nature of music (quick-fire gags defy musical setting), and too fast, in that given the complexity of the plot there is precious little time for character delineation, for the music actually to *do* something, for it to take control.

In the second two acts, which together run for less than 50 minutes, Orr seems to give up: the music is spread perilously thin as the plot is worked out with ghastly inevitability. One sits wishing that all the multiple and repetitive mistaken identities, the wan word-plays, the crass vulgarities – Stoppard is surely the most overrated playwright of the postwar period – could all be swept away and the music given time to breathe, especially since Orr is a considerable and proven composer for the stage.

Within the context of a mainstream mid-20th-century musical language (Stravinsky, Britten, Walton are points of reference), his word-setting is exemplary in its natural fluidity, his instrumentation both resourceful and deftly deployed (the orchestra is a full one, yet virtually every word is easily audible, alas), his melodic gifts well developed. There is a little gem of a solo for the travesti apprentice Christopher in the first act when musical inspiration for all too brief a moment takes control, before settling back to chunter amiably along under the text, with a dash of mock-Ravel-mock-Strauss here, a Stravinskian ostinato there.

Orr filled his commission most responsibly by providing so many parts for the student body, but this is sadly compromised by the production. While not envying Michael McCaffery his task in answering the contra-distinctive demands of music and farce, I wish he had come up with something other than the face-pulling, silly-walk school of opera production: this sort of posturing and mugging is emphatically not what students should be taught today.

Fiona Hebenton (Gertrud and Miss Blumenblatt) fielded a clean mezzo and some shreds of dramatic credibility, there was an appropriately touching quality to Roger Topping's Weinberl, and Sally-Ann Sheperdson was an endearing Christopher for all that she worked too hard at it. Gordon Cowie's sonorous, crisp bass (Zangler) and Catherine Croall's gutsy soprano (Marie) gave promise of things to come.

Praise for Gerald Kitching's stylish and practical designs, and great admiration for the orchestral playing and choral singing under the experienced, unflappable baton of Roderick Brydon.

Arts Guide

June 24-30

THEATRE

LONDON

The Common Pursuit (Phoenix). Second London chance for flawed Simon Gray comedy about Cambridge graduates in love and publishing, with a good young cast of comedians including Rik Mayall and Stephen Fry. (836 2294, credit card bookings 240 9661).

Easy Virtue (Garrick). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing. (379 6107).

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair.

The Phantom of the Opera (Her Majesty's). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber. (839 2244, credit cards 379 6131/240 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. (379 5399).

Back with a Vengeance (Strand). Barry Humphries, indisputably the outstanding vaudevillian of the age, has extended his triumphant London season to July 9. Dame Edna Everage has now earned full immunity to good taste, while the bibulous diplomat Sir Les Patterson touches new heights of degradation. (836 2660/4143).

Hapgood (Aldwych). New Tom Stoppard mixes espionage, romance and higher physics in a splendidly taut and clever entertainment. Felicity Kendal is the eponymous intelligence agent, Roger Rees and Nigel Hawthorne in elegant support. Double meanings and double identities abound. (836 6404, credit cards 379 6233).

NEW YORK

Fences (46th Street). August Wilson's powerful tale of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline. (239 6262).

A Chorus Line (Shubert). The longest-running musical ever in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Les Misérables (Broadway). Led by Colm Wilkinson, repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria Theatre in London will barely recognise its US incarnation: the skaters do not have to go round the whole theatre but do get good exercise on the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up, silly plot. (586 6510).

WASHINGTON

The Search for Signs of Intelligent Life in the Universe (Eisenhower). Lily Tomlin repeats her award winning solo performance of the crazy people who inhabit her funny and strange imagination. One major segment explores the women's movement over the past decade. Ends Aug 7. (254 3670).

CHICAGO

Pal Joey (Goodman). Set in Chicago in the 1940s, this Rodgers and Hart classic, directed by Robert Falls, follows in haunting melodies the escapades of a classic heel caught between the one who loves him and the rich lady he wants. Ends Aug 7. (443 3800).

TOKYO

The Maharabhata (Ginza Saison Theatre). The great Indian epic, dramatised by Jean-Claude Carrière and staged (in English) by Peter Brook and his international troupe of actors from Paris. In three parts, performed either on successive evenings or on a single day. Full of enthralling images of earth, fire and water, but not without its longuers, especially in the final part, which consists of a repetitive series of battle scenes. Ends July 27. (535 0555).

Hamlet (Ebisu Dai-2 Factory). This studio production by Japan's most innovative director, Yukio Ninagawa, makes use of two translations, one old and one new, but Ninagawa has left it up to his actors to decide which one to use – and when. The strong visual concept for this imaginative production derives from Japan's Doll Festival. Hamlet is played by a popular TV actor, Ken Watanabe. Ends June 29.

AMSTERDAM

Stadsschouwburg. The English-Speaking Theatre of Amsterdam continues its 10th anniversary summer season with Beyond Silence, a multi-faceted exploration of the female imagination. (all week except Sun and Mon). (24 23 11).

Saleroom/Antony Thorncroft

Impressionist records fall

Christie's was well pleased with its sale of major Impressionist pictures on Monday night. It might not have quite matched the £38m total of the March 1987 auction, which included £24.75m for just one picture, Van Gogh's "Sunflowers," but the final aggregate of £33.1m was the second best in its history.

And if two key paintings – a Renoir and a Modigliani – had sold as anticipated the record would have been broken. The Renoir, of a young girl reading a book in a garden, was pretty but dark, and failed to attract a bid. The Modigliani, of his mistress, who committed suicide just two days after the artist's death, was also lacking in *joie de vivre*.

These apart the sale went well. A Van Gogh of books, in which his "yellow palate" was much in evidence, did well at £7.15m, and one of the few townscape paintings that Monet completed during a stay in Holland in 1871 was on target at £3.85m, an auction record for the artist. Another record was for an early Chagall – a ferris wheel in yellows and greens, painted in Paris in 1911. It sold for £1.65m, almost twice the previous best, but it was expected to reach £2m.

Perhaps the biggest surprise was the £1.32m paid for a rare Renoir nude of a young man with a cat. The top estimate was £400,000, and in 1981 Christie's had sold it for £230,000. Other records were the £715,000 for a landscape by Bazille, who died at the age of 29 in the Franco Prussian War; £1.21m for a Manet pastel, "Le tricot;" and £528,000 for a frothy Marie Laurencin of young girls with musical instruments.

The twelve paintings sent for sale at the last minute by Alan Clore sold for £6,114,900. They might have made the £10m hoped for if the Renoir had found a buyer, a Monet landscape had sold, and if the Chagall had reached its upper forecast.

Christie's continued yesterday with second division Impressionists and watercolours. Among the latter, "Grand nu," a brown chalk drawing of 1927 by Braque influenced by Picasso's classical period, sold for £473,000, way ahead of the £170,000 top forecast while a dark crayon drawing by Seurat, "Les peupliers," was on target at £242,000. A gouache and watercolour of two clowns on a horse by Chagall made £264,000 as did another Chagall, of a tavern. In the morning session, a Marie Laurencin, "Deux femmes," did well at £220,000, and "Maison derrieres des arbres" by Soutine just about trebled its forecast at £187,000. The session contributed £6,365,700, with 23 per cent unsold.

Sotheby's two day print auction totalled £1.8m with 16.4 per cent unsold. Top price among the Old Masters was the £225,500 paid for an anonymous 15th century German woodcut, of the Pieta. It is printed in black with bright early hand colouring in red and yellow.

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Wednesday June 29 1988

The Party and the state

THE SPECIAL conference of the Soviet Communist Party which opened yesterday was called specifically to deal with problems of Soviet democracy. It is therefore not surprising that the main novelties in Mr Mikhail Gorbachev's opening speech concerned political rather than economic organisation, even though Mr Gorbachev himself is probably as well aware as anyone that economic performance is the criterion by which his great experiment will ultimately stand or fall.

He did call for the generalisation of the family farm experiment, and he did admit that the current retail prices of many basic foodstuffs and other consumer goods are below cost. He went on to promise the removal of the state subsidies that make this possible. But, even while waxing eloquent in almost Thatcheresque style about the inflationary effect of the state budget deficit, he also promised not to use the savings on subsidies to reduce that deficit but to pass them on directly to the people, apparently in order to cushion the standard of living against the effect of the rise in retail prices. That sounds like a classic recipe for an inflationary spiral, but will perhaps be modified by the "deep study" of the subject which Mr Gorbachev said is now under way.

Radical remedies

Meanwhile, political reform has become his overriding priority, as he has realised that only by bringing a much broader sample of the Soviet population into the decision-making process can he hope to overcome vested interests and bureaucratic inertia, and so to carry through the wholesale modernisation of Soviet society which is his aim. In one of the most patently sincere passages of his speech, he admitted yesterday that he had not at first realised just how bad things were, and how radical the remedies that would have to be applied.

The great merit of yesterday's speech is that it gives us the first relatively clear picture of the new political system that Mr Gorbachev is trying to build. It is to be a society enjoying the rule of law, with an independent judiciary: a society whose citizens enjoy the right of privacy and the presumption of innocence; a society in which all activities are permitted except those that the law explicitly forbids. This in itself would be such a fundamental change that one is bound to feel some scepticism about it really happening. Certainly there is no chance of it unless the new-found freedom of the media is preserved and expanded – and, conversely, the best hope of that is that freedom of expression will in the future enjoy the protection of the law, not just of a few people in high places.

Leadership

The other two prongs of Mr Gorbachev's trident are the democratisation of the Communist Party, and the separation of the Party from the state. These are laudable objectives, but how will they work in practice? The Party, while striving to disengage from purely executive tasks, will not renounce its monopoly of political leadership, indeed of political activity in the narrow sense. That makes its internal democratisation vitally important, but may also make it more problematic, since those whose views the Party rejects will not be able to conduct an organised campaign for an alternative programme.

The distinction between political leadership and executive responsibility is by no means as clear-cut as Mr Gorbachev makes it sound. His own position illustrates the problem. The beefed-up state presidency which he proposes (modelled on that of France, by the sound of it) includes many of the functions he himself now performs. It could not in practice carry the political weight that he wants it to unless combined with the leadership of the ruling party. In suggesting that the Party can somehow step back from power without stepping down, Mr Gorbachev fails to take into account the irresistible determination of all those who have to deal with the state, whether at home or abroad, to work out who is really in charge and deal with that person directly.

Splitting up the DHSS

IT IS HARDLY surprising that recent internal reports on the administration of welfare payments by Britain's Department of Health and Social Security (DHSS) are highly critical. The department is too big. It is spending some £69bn per year, or 44 per cent of all government expenditure. On the social security side it has 96,000 employees who process about a billion benefit payments a year. The National Health Service has a further 750,000 employees on its books, not to mention work contracted out. This is the size and scope of department whose equivalents are getting a bad name in the Soviet Union.

A DHSS review team has now found that social security is "over-administered and under-managed," with the consequence that there is a wide variation in standards of service, ranging from the "quite outstanding to the quite appalling." Staff morale is low. Turnover is high. Counter clerks are concerned about assaults by disgruntled clients. Recruitment is difficult. If the DHSS were a private company the case for replacing its board by a more able team would be close to overwhelming.

Management

In the event Mr John Moore, the responsible Secretary of State, has promised to examine his department's own reports with "all possible speed." One suggestion is that about 2,000 headquarters staff should be moved out of London. Another calls for a management reshuffle combined with a staff retraining programme. Pensions and income support payments, the bread-and-butter work of social security, should be run on an agency basis. Management responsibilities should be devolved; individuals should be made clearly accountable. Performance should be measured. If all this sounds familiar, so does the fashionable notion that the department needs a corporate image, with funds to promote it.

There is nothing wrong with setting out to improve the management of social security. Efforts to do so on the health side have already made some headway, and when the current review of the NHS is completed under the chairmanship of the Prime Minister there will no doubt be a whole series of managerial innovations on the table. The essence of the matter is not, however, managerial. It lies in the political definition of the proper level of expenditure on pensions and income support - the latter being the kind of payment that in the US is usually termed "welfare." Mr Moore is a leading protagonist of the Government's view that welfare should be limited to those who are most in need and who most obviously cannot fend for themselves. Beyond that, "dependency" should as far as possible be eliminated.

Reshuffle

This political standpoint has undoubtedly contributed to a climate in which work in social security offices is held in low esteem. The Government has signalled that this is an area of its operations for which it has little regard. Its preference is for private charities to take up the slack where they can. It is no wonder that some members of the public find local offices, in the department's words, "sleazy" or "forbidding." The extraordinary and welcome social advances of the past decade have been accompanied by the emergence of what Americans term an "underclass." It is being handled by an under-Department.

No mere administrative change will alter this. There is, nevertheless, a strong political case for dividing the department in two. Mr Moore may be the right Minister to carry forward the restructuring of the NHS that he is due to announce in the autumn. If the Prime Minister considers that his stock of political capital has run out, the present Minister for Health, Mr Antony Newton, would be an able replacement. Either way, no single individual will be able to tackle health properly if he or she is also responsible for social security. If the latter task is to be seen as primarily an assault on dependency the correct course would be to merge social security with employment. In times of large Budget surplus there is, however, a strong case for a more emollient approach. A separate department under, say, the present Minister for Social Security and the Disabled, Mr Nicholas Scott, would do the trick.

Clive Wolman explains US firms' failure to achieve the success expected of them in the City of London

The eagle that never landed

FROM power breakfasts, 7.30am starts and six-figure salaries to the dismantling of the old boy network and the mobilisation of lawyers to vet every transaction: the Americans have been credited with transforming the City's work patterns and business methods over the last four years.

Before the Big Bang reforms of 1986, many UK stockbrokers were forecasting that the all-pervasive influence of Wall Street would ultimately lead to most of the UK securities industry falling into US hands. But that has so far proved to be one of the most wayward of the pre-Big Bang forecasts. Nearly all the leading US banks which paid so dearly for a foothold in the London market have suffered setbacks and embarrassments and achieved disappointingly low market shares. In the gilt-edged market, for example, American-owned firms have accounted for 40 per cent of market makers but only about 30 per cent of turnover.

The Americans built up their securities operations more rapidly and ambitiously than any other financial institutions, except possibly for County NatWest. Five US-owned firms more than quadrupled their numbers to more than 1,000 in the two years before Big Bang. They were also the first to announce redundancies in London and on a larger scale than the British.

- Shearson Lehman laid off more than 150 last September.
- Salomon Brothers went from 900 to 750, also before the October crash, as part of a withdrawal from several trading areas.
- Chemical Bank, the US commercial bank, cut 170 and withdrew from the issuing of Eurosecurities only a year after investing heavily in building up a Euromarkets team.
- Chase Manhattan has had two rounds of redundancies and has twice restructured its stockbroking operations, leading to mass defections.

> British victims complain about US 'pigeon' style management in which bosses pay nothing but flying visits

- Merrill Lynch, after drastically reducing its gilt-edged operations early last year, has laid off more than 150.
- Prudential Bache, subsidiary of the Prudential insurance company, and the Royal Bank of Canada are among the four firms to have withdrawn from gilt-edged market making.

Many US firms laid off newly recruited graduates, in one case just after they completed a training course in New York. Already, this year the effect has been to force US firms to offer even larger salary premiums to new recruits from universities.

Citicorp and Security Pacific, two leading US commercial banks which paid more than £80m each for what were two of the highest ranking UK stockbroking firms, Scrimgeour Kemp Gee and Hoare Govett, suffered losses of about £25m each last October in Dublin and London respectively. Security Pacific was forced to make an emergency injection of capital. Both banks have reined in their UK subsidiaries and cut bonuses and other costs. This has led to a fresh wave of defections and a slump in staff morale.

British victims complain bitterly about the US "pigeon" style of management, in which the boss pays a flying visit, deposits his droppings in the form of ill-judged criticisms and the occasional peremptory firing, and returns to New York.

Their complaints are of interest, not as a fair critique, but as an indicator of the culture gap between traditional British stockbroking firms, cocooned for so long by the Stock Exchange cartel, and US banks with their focus on quarterly performance figures, tight control imposed from New York headquarters, insistence on smoothly functioning paper-processing systems and rapid hire and fire policies. According to Mr Aram Shishmanian, of Arthur Andersen management consultants: "US banks work in a very structured corporate environment with rigid budgets, performance measures and approval processes, which the British don't like. The opposite happens when UK banks acquire in the US. The US managers feel uncomfortable because they don't get firm directions."

Ironically, when their acquisitions were first made, several of the US banks agreed to grant their London acquisitions an unprecedented degree of autonomy. The most common complaint from Hoare Govett employees in the first year after Big Bang was that Security Pacific, a Los Angeles-based bank, was doing nothing to bring them into the group or to extract synergies by cross-selling services and exchanging information and expertise. Several leading figures resigned when Security Pacific took full control after last October's crash, complaining that the bank's senior executives had shown little understanding of the securities business. According to Mr Angus Hislop, of Coopers and Lybrand management consultants: "Synergy is very difficult to achieve when totally different cultures come together."

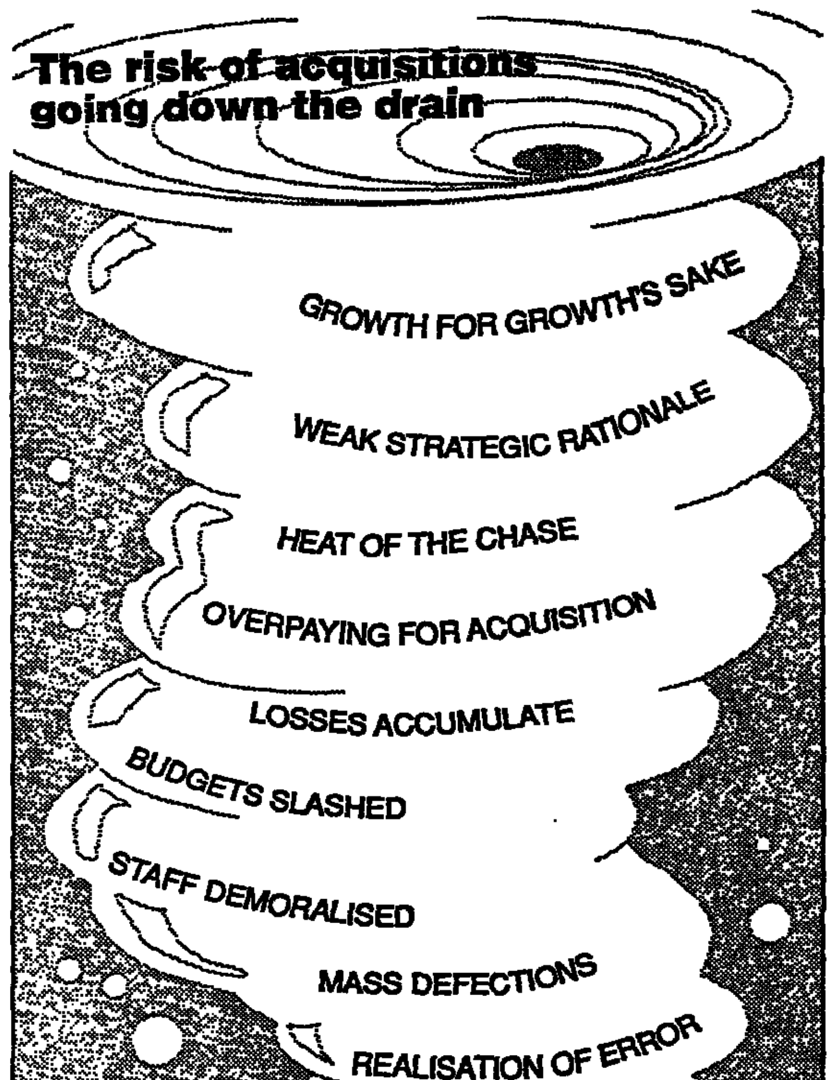
Citicorp also adopted a different approach to its London acquisition. According to one participant, chairman Mr John Reed examined Scrimgeour's Dogfox desktop company and price information system and complimented the executives on its success. "Just don't let our guys come in and screw it up," he said.

Mr Fred Pettit, a long-serving Citicorp executive, was appointed chief executive of its UK securities firm at the request of the Scrimgeour employees. However, he was summarily removed only five months after Big Bang, supposedly for failing to control costs and bypassing the bank's complex reporting systems.

Prudential Bache, which set up its own stockbroking operation in London in 1983, has stuck more consistently to a policy of loose central control. According to chief executive Mr Will Custard: "We have budgets and risk limits and we standardise the paper work but nothing else. You can't expect one person in head office to understand everything that's going on around the world." But even Pru-Bache has suffered two prominent defections, of Mr Duncan Duckett and Mr John Macarthur, as a result of budgetary disputes.

The US banks appear to be in danger of getting caught up in the downward spiral suggested by McKinsey management consultants (see diagram). Mr Selgurd Rentos, of McKinsey, compares the rush by outsiders to buy into the UK securities industry with similar fashions for leisure companies and consumer goods brands. "For any small incumbent firm, when the rush begins, the only sensible decision is to sell out, take the money and run," he says.

But it is far too early to write off the Americans. Since the General Motors acquisition of Vauxhall 60 years ago, US multinational companies have come through the years of anguish to make a success of their British acquisitions.



The long-term strategy behind their entry into the London securities markets remains. The commercial banks see it as a way of gaining experience of managing an investment banking operation in preparation for US deregulation, while the investment banks see it as helping to secure a leading position in the globalised industry. Thus the investments that the US banks have made should be evaluated not on the basis of the profits directly extracted, but on the contribution that London makes to their global operations and on their ability to disseminate the skills and experience gained to other parts of their organisations.

In any case, the number of firings and staff defections is not a reliable criterion of success or failure. One method which has failed has been the use of golden handcuffs to prevent key employees from leaving and diminishing the value of the acquisitions. Handcuffed staff have tended to become demotivated or found ways of freeing themselves. Shearson Lehman eventually forced the departure of 14 ex-partners – whom it had handcuffed – of the stockbroking firm L. Messel.

Nevertheless, the losses suffered by the US institutions, excluding their BP underwritings, remain small compared, for example, with the £115m lost by County Natwest or the £60m lost by Barclays de Zoete Wedd during the crash. Even Shearson Lehman, the London operations of which have achieved one of the poorest performances since Big Bang, has a 20-year record of making difficult acquisitions such as that of Lehman Brothers investment bank and, after the initial traumas, successfully absorbing them.

At the same time, some of the US investment banks, such as Goldman Sachs and Morgan Stanley, which have built up their London operations gradually and on the basis of recruitment and training rather than acquisition, have achieved success. Goldman Sachs's conservative approach ensured that it suffered only small losses last October. And it has already become the leading foreign adviser on UK mergers and acquisitions, challenging the hegemony of the merchant banks. It was also one of only four firms to have made a profit from gilt-edged market making in the first 12 months after Big Bang.

However, even Goldman decided to "let go" of a fairly large number of staff. And it has yet to resolve several festering management issues, in particular the intensity of daily "communications" between London and New York, which often becomes a ritual buck-passing exercise, and its exclusive reliance to date on home-grown US partners to take charge of the UK operations.

If the weaknesses of the US style of managing professional staff have not been as damaging as their UK competitors claim, neither have their strengths been exploited as much as was feared. The management of paper processing and the settlement of bargains is one area in which US securities firms have a strong potential advantage. The settlements crisis of 1968 on Wall Street, which forced several firms into bankruptcy, persuaded them to invest heavily in automated systems which have reduced drastically the number of movements of share certificates and other paper. Prudential Bache says that its average cost of settling a New York Stock Exchange bargain is only $5. Most British firms, if they can estimate their costs at all, cite a figure five to 10 times as great.

Most US firms were shocked to discover the sprawling mountains of paper covering the desks of the settlement departments in their London acquisitions. Morgan Stanley pulled out of negotiations to buy one stockbroking firm after one of its partners was taken on an after-lunch visit to the back office.

But most US firms have so far done little to raise the standards of their UK subsidiaries. In particular, they have failed to exploit their potentially low cost base to move into private client stockbroking, where settlement costs represent a high proportion of the value of the typical bargain. The US investment banks have shied away from moving into the retail market and the private client stockbrokers and clearing banks, which have a large market share, have been reluctant to follow the Wall Street model and subcontract their settlement operations. Security Pacific, as a commercial bank, has no direct experience of settlements in the US and proved unable to assist Hoare Govett in its attempt, which ultimately failed, to become a large low-cost private client broker.

According to Mr Shishmanian, the US firms also did not appreciate the extent to which their UK operations would be dependent on the unsophisticated central settlements system.

Nor have most US firms, with the possible exceptions of Chase Manhattan and Morgan Stanley, demonstrated any greater skill in devising management accounting systems. According to one management consultant, until it suffered a slump in profitability early last year, Salomon Brothers' interest in its accounts was limited to the quarterly aggregate figures for revenues and expenditure. This is surprising in view of its concern with objective performance measures and financial targets, and its lengthy experience of running integrated securities operations with no fixed commissions.

Without the ability to analyse the costs and revenues attributable to each operation, it becomes impossible for securities firms to price their services correctly. Nor can they decide rationally what areas to cut or expand.

Which companies emerge among the winners in the battle for global domination may depend as much on their ability to analyse their complex and interrelated operations as on the way they handle their staff.

Japan's new think tank

■ "I have at long last found a job," Yasuhiro Nakasone said in Tokyo yesterday as he emerged from several months' relative seclusion. He has spent the time setting up a Japanese think tank on political, strategic and economic issues.

Nakasone, who stood down as Prime Minister last November after a momentous five years in office, will be chairman and president of the new organisation, to be called the International Institute for Global Peace.

He says there is too little diversity of opinion on public issues in Japan and he hopes that the institute, which is being compared with Chatham House in London and the Brookings Institution in the US, will attract a wide variety of scholars, including foreigners, to improve matters.

There is some question in Tokyo, however, about whether Nakasone will have everything his own way at the institute. As he himself acknowledged, some elements within the Japanese Government have not been enthusiastic about infusions of ideas on public issues from the outside. He insisted that the institute, even though created by an act of the cabinet, will be privately funded and run.

Still, it was difficult not to notice the presence of two intimate associates of the current Prime Minister, Noboru Takeshita, among the great and the good represented on the institute's board.

London enquiries

■ It has become increasingly difficult to get through to British Telecom's directory enquiries service in London. Even getting a recorded voice saying: "You are waiting in a queue" counts as a stroke of luck. It is much better in the north.

Telecom, recognising the London problem, started negotiations a year ago with the Union of Communications Workers about proposals to re-site operator services in the regions. They are still going on.

The union says the negotiations have reached a "delicate stage". There are fears that moves outside London could lead to "regional" – and therefore lower – wages, although Telecom has not proposed this.

There is no reason why the London service should be central. International directory enquiries, for example, is spread between Grimsby, Leicester and Irvine.

Telecom has difficulty attracting operators in the capital where the maximum wage is just over £8,000, including a £1,500 allowance for London weighting. Nevertheless, about 2,000 were recruited last year to a work force of 6,400, as part of chairman Iain Vallance's commitment to improving the service.

London operators also spend their time dealing with written enquiries from commercial companies, some of whom ask for several thousand numbers. Thus the phone is not always fully manned.

The service is expected to improve by the end of the year when Telecom hopes to provide some business customers with direct access to its data base.

OBSERVER

"I would pay £800 for a Wimbledon ticket only I'm afraid of overheating the economy."

End of Bourguiba

■ The Soviet Union is not the only country to turn against its past leaders. Something is going on in Tunisia where Habib Bourguiba, the President for Life until he was relieved of office last year, is being thoroughly dethroned.

The local authorities in the industrial centre of Menzel Bourguiba near the port of Bizerta have taken down his statue and it may be that the place will be shortly renamed. Bourguiba's statue has already been removed in the holy city of Qairwan.

The Tunisian press has also started asking awkward questions. The weekly "Réalités" recently wondered where the former ruler's jewels might be. Bey Lamine, who was deposed thirty years ago after independence from France, owned a magnificent collection, part of which was appropriated by Bourguiba's second wife, Wassila Ben Amar, whom he divorced in 1986 and who now lives in exile in Paris.

Senior officials in Tunis say that the moves to take down the statues are the result of local initiatives. They have no wish to intervene one way or the other. Still, the building of the 20-metre-high statue of Bourguiba on the Place de la Kasbah, which dominates the old city, was stopped at the end of last year! The authorities paid $80,000 to the Italian architect for work already done.

Stupid frogs

■ Businessmen have to avoid becoming boiled frogs, according to Crispin Tweddell who heads the retail venture capital fund, Piper Trust.

Tweddell says that a frog placed in a saucepan of cold water which is then heated will not notice the rising temperature and boil to death. Frogs put in hot water jump out again. The moral is that businessmen must be more aware of changes in their environment.

Cricket scholars

■ Those who argue that university cricket should have its first class status removed had their point strengthened by last week's heavy defeat of the combined Oxford and Cambridge XI by the West Indies.

Roger Wardle, a partner in the Cambridge office of accountants Peat Marwick McLintock and Chairman of Cambridgeshire Young Cricketers, says that the universities may be complacent about their traditional role.

While they may have two fine pitches on which county batsmen can improve their batting averages, they do not have the players to merit their first class standing. Wardle thinks they have only one cricketer of future England potential, the Cambridge captain, Mike Atherton. The solution, he believes, is a policy of giving places to good cricketers who may not have the top academic records.

Peat Marwick is sponsoring the Varsity match at Lords this weekend.

Long speech

■ The one area of activity which Mikhail Gorbachev has not yet restructured is speech-making by leaders at Soviet Party conferences. His own speech yesterday took 3¼ hours.

According to Lord Glenarthur, Minister of State at the British Foreign Office, a previous Soviet leader attempted to reform the system by ordering his speech-writer drastically to reduce the length of his text. Yet when he got to the rostrum, he found it took much longer than usual to read.

The speech-writer explained afterwards that he had carried out the instructions. "But I didn't expect you to read all three versions."

David Buchan, David Marsh and William Dawkins report on the EC's latest step towards monetary union

Trying to break the barriers of sovereignty

THE HOUR was past midnight and the mood euphoric at separate briefings in two Hanover hotels: Mr Helmut Kohl, the West German Chancellor and Mr Jacques Delors, the EC Commission President, sketched out in almost visionary terms Europe's road map towards monetary union in the 1990s.

The two leaders were reporting on the decision a few hours earlier by EC heads of government to set up a high level study group to examine over the next 12 months potentially far reaching improvements in European monetary cooperation, including moves to a single European currency and central bank.

The Hanover move gives fresh impetus to a traditional Community objective. It comes four months after the EC at its last summit in Brussels finally resolved its budgetary crisis. It appears at last to gear the Community again firmly to the future after several years of nationalistic wrangling over the budget and farm spending.

For Mr Kohl, the proposal crowns Bonn's surprisingly successful six month term in the Community chair – and it deflects attention from his increasingly pressing domestic political problems. The plan gives Mr Delors, already basking in praise for pushing forward the internal market programme, a fresh platform for his efforts to strengthen political and economic bonds between EC members.

Mr Delors, a former French Socialist finance minister, was nominated unanimously on Monday night for a further two year spell as EC Commission president. He will chair the monetary study group, to be composed mainly of EC central bankers as well as outside experts.

However, EC member states face a long hard journey to turn Monday's euphoria into action, in view of the still large economic divergences in the EC and the delicate questions of political sovereignty involved in the monetary union debate.

Mrs Margaret Thatcher, the British Prime Minister, represents one of the toughest obstacles. As the goal of monetary union is now enshrined in the Single European Act which came into force last summer, even Britain feels it cannot easily block further debate on the matter. But Mrs Thatcher only put her name to the study group move because it made no specific mention of the idea – favoured above all by the French and the Italians – of creating a common European central bank.

The British government's opposition to a Eurobank is grounded on Mrs Thatcher's refusal to consider the transfer of sovereignty to Europe in the monetary field. She has irritated both Bonn and Paris by opposing full British membership of the nine-year-old European Monetary System. The pressure for sterling, the most widely traded EC currency after the D-Mark, to join the exchange rate mechanism is bound to grow as Mr Delors develops his group's work.

But Mrs Thatcher's attitude on EMS remains unbending. And she made clear yesterday that her idea of monetary union does not include the permanent fixing of EC exchange rates, let alone a single EC coinage or bank. "Products change, markets change, and exchange rates can never be irrevocably fixed," she said. The Thatcher vision is clearly of monetary freedom, rather than union.

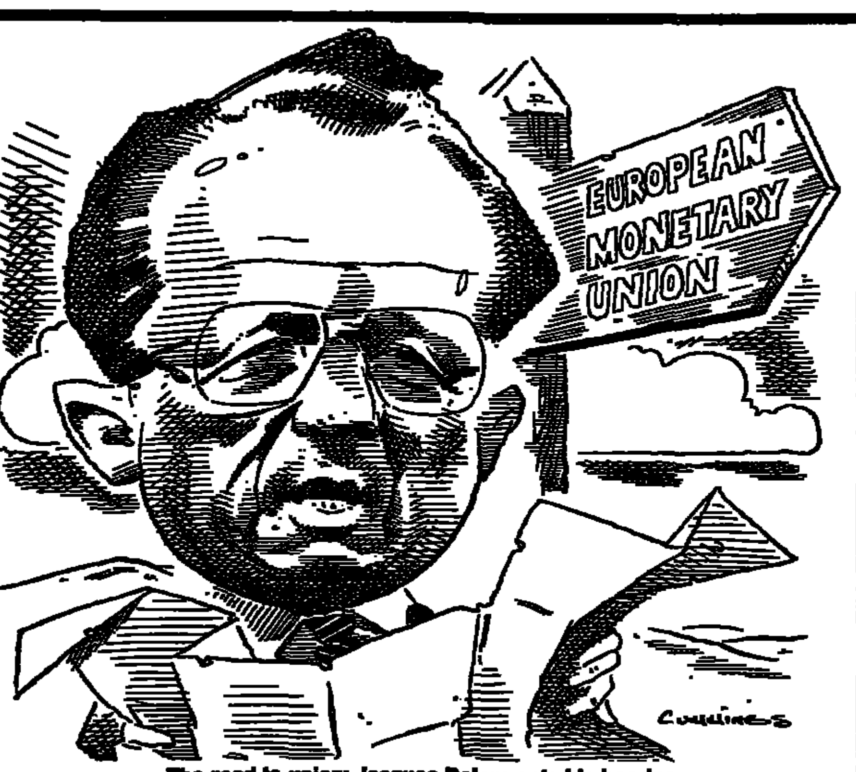
The Community has in the past made two major efforts at forging stronger monetary links. In both cases, results have fallen behind original hopes.

The Werner Plan of 1970 set for 1980 the goal of monetary union now thought of, at its earliest, as a target for the 1990s. The EMS, which came into force in 1979, originally envisaged moving in 1981 towards setting up a European Monetary Fund (EMF) which would pool permanently, member countries' gold and foreign exchange reserves. Above all because of opposition from the West German Bundesbank – which will play a vital and sceptical role in the new debate – the EMF idea was quietly shelved. But there are three new factors, compared with a decade ago.

The first is the fast progress in the Community's programme for deregulating its internal market which has now come so far that pressing questions in related areas have to be answered.

These are: how can the business benefits of scrapping trade barriers be spread to workers? Will the dissolution of internal frontiers make international crime control impossible? And, most important of all, is a single market possible without a single currency and a single Euro-bank to manage it?

The second new point is that the performance of the EMS in establishing a zone of relative currency stability has generated a desire to build on it – as well as restiveness among some of West Germany's partners.



The road to union: Jacques Delors gets his bearings

France and Italy, in particular, believe a move towards a common central bank could dilute West Germany's *de facto* dominance of the EMS. These countries complain not only that the Bundesbank's monetary stance sets the tone for the rest of the Community, but also that West Germany's overall low growth and anti-inflation emphasis are unnecessarily depressing jobs and economic activity elsewhere in Europe.

This view sparks off a strong counter reaction from the Bundesbank. The statutorily independent central bank argues – with strong support from Bonn – that any European currency integration not based on utter commitment to price stability would be unacceptable.

The third fresh factor is the personality of Mr Delors. His already strong reputation in French politics and finance, as well as the competence with which he has run the Commission during the last 3½ years, have now pushed him into a pivotal role.

The Commission in the past has led, if at all, from behind in monetary affairs. But now, in anticipation of this week's agreement, Mr Delors has already been laying out the agenda for his monetary study group's deliberations.

The train of thought which Mr Delors has set in motion tries to tackle Europe's multi-currency imperfections by moving to a single currency and then crowning the process with a central bank. Mr Delors held out an important olive branch to the Germans last week by saying that any future central bank would have to be independent of governments or the EC Commission – just as Mr Karl Otto Poehl, the Bundesbank president, has insisted.

Indeed the inate conservatism of the Bundesbank is a shield for doubters like Mrs Thatcher. While several EC leaders were yesterday stressing the eventual need for a Eurocurrency, Mrs Thatcher was approvingly citing a recent Poehl statement to the effect that monetary union did not necessarily entail a common currency.

Mr Poehl has also questioned to what extent the embryonic Eurocurrency, the ECU, could be used and promoted in parallel with national currencies. In contrast to Mr Delors and the Commission, who laud the ECU as the best intervention weapon on the financial markets, the Bundesbank has strong reservations about any currency basket like the ECU not being subject to national financial discipline.

Among the 18-strong panel chaired by Mr Delors, Mr Poehl is likely to have the most important voice of the 11 EC central bank governors. The most prominent of the outside experts, Professor Alexandre Lamfalussy, general manager of the Bank for International Settlements, could play a determining role. Although a pillar of the central banking establishment, he is no Thatcherite. Mr Lamfalussy is a great believer in the EMS, and has criticised repeatedly what he considers the over-cautious fiscal policies of the Bonn government.

Overshadowing the coming debate is the question of where monetary policy for any future European monetary union will be decided. Not for nothing has Mr Poehl joked recently that the home of a future European central bank could be Frankfurt, making a dual pun on the need for currency stability and a "franc fort".

The Bundesbank doubts whether European governments, despite the bold words of Hanover, could stomach the loss of political sovereignty necessary to set up a fully fledged European central bank. In the last resort, this may be an insurmountable obstacle for more heads of government than just Mrs Thatcher.

The UK Government and the Church

The great divide of economic policy

By Donald Hay

THERE IS something ironic about the present disputes between the Church and the Government in the UK over economic policy. For the first time in living memory, Britain has a *Prime Minister* who *is* not ashamed to confess her Christian faith publicly and to claim that her policies spring from Christian roots. Yet when she seeks to enlist the Church as an ally, she meets with a curious reluctance. Secular observers are rightly bemused.

The easiest explanation is readily available. A crusading advocate of right-wing policies is confronting a Church which has predominantly socialist leaders, their political beliefs having been formed in the 1950s and 1960s. Not for the first time, the Church is simply out of touch and out of date. Wait for the present bench of bishops to die or be pensioned off, so the explanation runs, and a younger generation will have more sense. But this superficial explanation fails to comprehend the complexity of the issues.

One issue is the Christian critique of the market philosophy so enthusiastically espoused by the Government. Properly expressed, this critique sounds a note of warning at those points where a Christian conscience is troubled, rather than calling for a wholesale repudiation of the market. To the Government's emphasis on private property rights, a Christian responds with a concept of stewardship. Property entails responsibilities to others in its use, as well as rights. The Government urges the role of profit as an incentive for motivating the enterprising in the use of resources. A Christian, heeding Christ's teaching, fears the single-minded pursuit of Mammon: and who, looking at yuppy culture, would deny that the Christian has a point. Competition, as the "Department for Enterprise" never fails to remind us, is essential to the market mechanism. It ensures that resources go to those who value them most highly or can use them most productively. A Christian learns from the New Testament to esteem community and to value co-operation for the common good. He does not deny a place for competition, but fears that it may combine with individualism to produce destructive rivalry.

The market mechanism is said by the Government to be the only source of wealth creation, through efficient and enterprising resource use. But there may be a price to be paid for such efficiency in the marginalisation of those with few resources or few skills. They may be unemployed, or earn little, so their participation in the market economy is greatly constrained. A Christian recalls the biblical "bias to the poor". That God cares particularly for the poor is a recurrent theme in the Law, the Prophets, the teaching of Jesus, and the life of the early Church.

The question remains as to how that care for the poor is to

> The Government says the market *mechanism is the* only source of wealth creation – but there may be a price to be paid

be expressed, and this is the second area of contention in the present debate. The Prime Minister seems to be arguing that responsibility rests firmly with individuals, and particularly with those who have benefited from the recent tax cuts. The Church would argue that the Government should not duck its God-given responsibility to see that justice is done to the poor. It might also argue that private charity is likely to be haphazard (how do I give to the poor in inner-city Liverpool?) and less than generous. Furthermore, there is little sign of any trickle of new wealth down to the poor.

A third issue concerns the role of the Church as moral teacher. Four years ago in his book, The Creation of Wealth,[1] Brian Griffiths, the Prime Minister's policy adviser, argued that a successful market system depends on a moral base to ensure that people do not exploit the opportunities of the market in an opportunistic way. Markets cannot survive without a basic morality of truth telling, honesty and fairness in dealing. Equally some concern for others – family and neighbour – is essential if the fruits of the creation of wealth are to be shared. A fundamental respect for law and order is needed if the pursuit of self-aggrandisement is not to spill out from markets into non-market behaviour. (The current *increase in "middle class"* crime in Britain may not be an accident.) The Government needs the Church to teach a strong individual morality and to provide a basis for it, if the dangers indicated by a Christian critique of the market philosophy are not to be realised.

But the Church is reluctant to accept this role, much to the chagrin of Conservative politicians. There is no single explanation for that reluctance. Some in the Church would argue that their proper task is to preach the Gospel rather than Christian morality. The Kingdom of God has nothing to do with secular poli*tics and the Prime Minister's* attempt to enlist it is resented. Others would agree that the Church does have an important role in contemporary politics, but would wish to base that role on the social theology of the 1930s. Archbishop William Temple is their inspiration and he had much to do with the founding of the Welfare State.

Yet others subscribe to a more pluralist view. This was evident in Faith in the City, the Church of England's report on inner cities published in 1985, and in the recent Church report, Changing Britain. The search is for a common morality for public life, shared with other liberal-minded persons both believers and non-believers. Any distinctive contribution from Christian theology is deliberately played down. The result is far from the ringing endorsement of basic Christian values which the Prime Minister would like. Given the depth of the divide between the Government and the Church on economic issues, it is unlikely that she will get that endorsement, at least in the near future.

Donald Hay is Fellow and Tutor in Economics at Jesus College, Oxford, and the author of Economics Today: A Christian Critique to be published by IVP, Leicester in 1989.

[1] *Brian Griffiths, The Creation of Wealth, (Hodder and Stoughton 1984) Faith in the City (Church House Publishing 1985) Changing Britain (Church House Publishing 1987)*

Letters to the Editor

Value variants in the NHS

From Mr Peter Oppenheimer.

Sir, Mrs Julia Cumberledge of the National Association of Health Authorities asks (June 24) why hospital consultants should not be employed – like Health Authority members, chairmen, general managers and ancillary staff – on value-for-money renewable contracts. There are two reasons why not.

First, consultants are professionals carrying responsibility for the specialist care and treatment of patients. They have undergone prolonged technical training, graded work experience in the practical application of their skills over a run of years, and meticulously detailed assessment of their calibre, before appointment. In comparison, Health Authority members, chairmen, general managers and ancillary staff are non-professional, non-technical functionaries appointed more or less at random and responsible for nothing except balancing the books.

Second, there is no foreseeable prospect of devising sensible performance indices for hospital doctors (or indeed for general practitioners). Value-for-money calculations and cost/benefit analysis are excellent for helping us decide on techniques (for example, disposable versus re-usable syringes) or on optional programmes such as screening or immunisation. They have little to contribute towards assessing the work of individual doctors or medical units. Ascertainable data on intermediate outputs such as patients processed, operations performed, cost of treatment and so on are effectively swamped by qualitative factors and by differences in the mix of patients treated.

This is not merely predictable in advance, but is becoming more apparent with each new batch of statistics put together by the Department of Health and Social Security (DHSS).

Peter Oppenheimer,
Christ Church,
Oxford

Strong brews can cause abuse

From Mrs Eva Wittenberg.

Sir, I was interested in the strong brews mentioned by Observer (June 21), and roughly calculated their effects on an average consumer.

One pint of Mr Newill's Roger and Out would take the level of alcohol in the blood to just under twice the legal limit for being in charge of a vehicle. It would take six hours for the blood alcohol level to return to the legal limit.

Five pints of Mr Crabtree's Enoch's Hammer raises the blood alcohol level even more effectively; and the sixth – free – pint takes the blood alcohol to over four times the legal limit. The recipient of the free pint will remain above the legal limit for most of the next 24 hours.

You say in your leading article ("The abuse of alcohol," June 22) that "people have a right to indulge in potentially harmful activities," but if the harm is suffered by others, this right seems to me open to question.

Eva Wittenberg,
3 Fairacre,
Church Road,
Isleworth, Middlesex

Schools should serve citizens

From Mr Charles Smedley.

Sir, Michael Prowse (Lombard, June 27) confesses to learning little at school and blames the curriculum as "unimaginative, narrow and anachronistic." He doubts whether the new national curriculum will help, and claims that citizens are being cheated *and should demand their money* back.

The act of giving back citizens' money, through an education voucher, will improve the quality and breadth of schooling – even within the guidelines of the National Curriculum – as establishments compete for pupils.

The quality of teachers will also improve as resources are allocated to the front line and support services are made more efficient and competitive.

The reorganisation of assets within the educational sector, as pupils move and certain schools close, would also release capital for improvements to the equipment in and fabric of schools.

Mr Prowse was correct: hand the money to the parents and let *competitive forces do the rest.*

Charles Smedley,
5 Routh Road, SW18

From Mr Patrick Bailey.

Sir, While I agree with Michael Prowse (Lombard, June 27) that the whole school curriculum needs to be revised to make it suitable for the 1990s, I must take issue with him when he dismisses geography as something to do with the study of volcanoes.

This view of geography was always wrong, and is today dramatically out-dated. Modern geography, often alone among school subjects, deals with those very topics which Mr Prowse thinks are important (as I do), such as supply and demand – surely never a matter of mere economics; the reasons for and the effects of the "north-south divide" in Britain; and the role of the City in national and international affairs. May one suggest that Mr Prowse reads a *modern* geography book?

Patrick Bailey,
32 Guildford Road,
Leicester.

Figures are worth watching

From Mr D.M. Robinson.

Sir, According to Mr Jeremy Taylor (Letters, June 23), "TV-am is watched by 16m viewers as their main source of news first thing in the morning."

The figure could simply be a misprint, in which case I trust you will correct it. If 16m really is the figure being claimed by Mr Taylor, however, it should be challenged. In the BARB (Broadcasters Audience Research Board) viewing figures produced by AGB Research for the BBC and ITV (week ending June 12) the top viewing figure for the week goes to *Neighbours* with 15.55m.

TV-am is shown, as usual, to be bumping along with 2.1m viewers on weekdays, 2.3m on the Saturday, and 1.8m on the Sunday.

The increasing tendency among producers of relatively low-rated television shows to invent new sorts of "viewing figures" should be watched carefully. What would your competitors say if you, Sir, suddenly decided to announce your circulation as 1.75m on the grounds that that was the number of papers you sold each week?

D.M. Robinson,
66 Malden Avenue, SE25

Dressed to effect

From Mr Iain Baillie.

Sir, Ms Lisa Smith (June 21) objects to the reference to Mrs *Clowes's clothing* (June 17). This type of objection misses the point of reporting. Reporting is about news and a woman's clothing *is* part of the news. The average clothing for a man is too dull to be worth reporting, but a woman will choose her clothing carefully to achieve the right impression and that care deserves report. It would be sexist not to include a reference to it.

Iain Baillie,
52-54 High Holborn, WC1

One feature of a single currency market is less bland in its effect

From Mr I.R. Bloor.

Sir, In advocating a common European Community (EC) currency, Mr Samuel Brittan says (June 23) that in a unified currency market such as the US, payments deficits between one region and another are automatically and invisibly compensated by capital flows.

This will occur within the public sector accounts system, but in the private sector there is another feature of a single currency market which, although also automatic, is less bland in its effect.

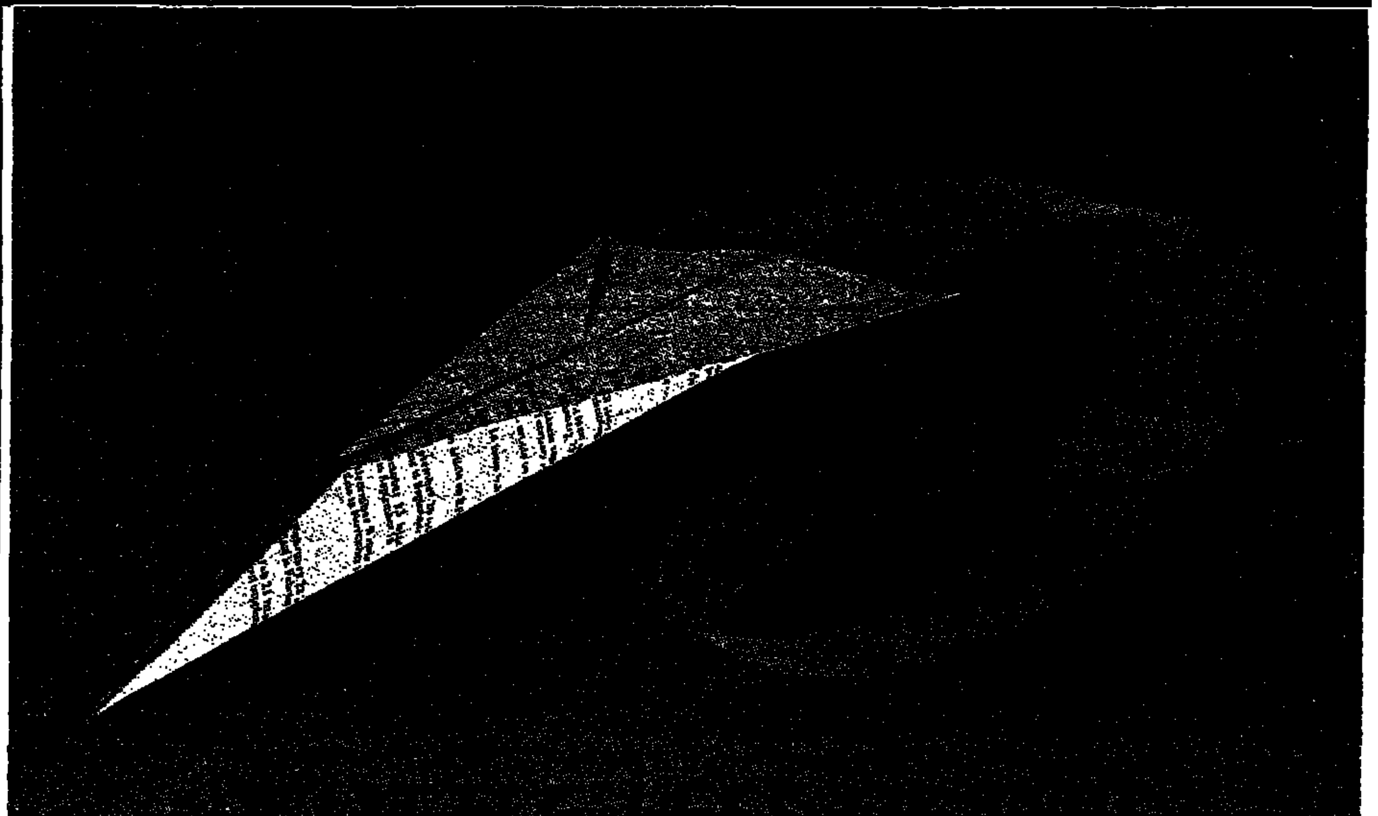
A region within a currency union (for example, the north east of England in relation to the UK) whose economy suffers a decline in competitiveness will have a "balance of payments deficit" with the rest of the union, which will automatically result in a decline in that region's employment as expenditure – and hence income – flows from that region to other regions.

Unless the central government decides to offset this outflow of funds by various subsidy payments, the region's economy will spiral downwards until some exogenous element such as the injection of new enterprise stabilises the situation.

By contrast, a political entity which controls its own currency issue may, albeit temporarily, alleviate the immediate social and employment effects of declining competitiveness, by increasing the domestic money supply and depreciating the foreign exchange value of its currency to provide time to undertake remedial policy measures to restore competitiveness. Thus, if there was a single currency controlled by an independent federal reserve bank, any nation suffering a loss of competitiveness would *automatically* experience commensurate social consequences; whereas with monetary autonomy these consequences could be moderated for a time.

Many will feel that the automaticity of a common currency discipline is on balance beneficial, but we should all be aware of its consequences from the viewpoint of economic and social policy.

I.R. Bloor,
1 Brickfields Close,
Wirksworth, Derbyshire



FINANCIAL TIMES

Wednesday June 29 1988

US bid to break Mafia hold on Teamsters

BY LIONEL BARBER IN WASHINGTON

THE US government yesterday filed an unprecedented civil suit seeking to wrest control of the Teamsters Union from the Mafia.

The Justice Department suit seeks a court-ordered trusteeship of the Teamsters and comes after three decades of ill-fated federal efforts to rid the nation's largest trade union of its mobster connections.

The Teamsters have already turned the suit into a major political battle, mobilising support with the Democrat-controlled House of Representatives and in the AFL-CIO, the labour federation which they rejoined last year after a 30-year absence.

More than half of the House is on record opposing trusteeship and the Teamsters' formidable political action committee is pouring money into this year's election campaigns.

The Justice Department suit, filed in New York yesterday by the US Attorney Mr Rudolph Giuliani, alleges that the Mafia has deprived the union's 1.6m members of their rights through racketeering, including 20 murders, shootings, bombings, bribes, extortion and misuse of union funds.

The lawsuit asks a federal judge in Manhattan to order free elections of new officers to the 18-member board, and court orders to keep the Mafia out of the union's activities.

Mr Giuliani and other prosecutors stressed that the government was not seeking control of the union. "This is not an attack on trade unionism."

The Reagan administration once enjoyed close ties with the Teamsters, whose president Mr Jackie Presser was the only major labour leader to throw his support behind the President in the 1980 and 1984 elections. But last March, Mr Reagan's commission on organised crime recommended the civil suit.

There had been some doubt about whether Mr Giuliani would *press ahead with the suit which* took a year to prepare. Last month, after a 13-month trial, a federal jury in New York acquitted Mr Anthony "Fats" Salerno and several associates of charges that they had rigged Teamster elections. *The Salerno case was* considered a key part of the present civil suit.

US crop calamity may bring bonus for EC

By Tim Dickson in Brussels

TEMPERATURES of 105 degrees may be frazzling the American Midwest, threatening the grain harvest – but the drought is temporarily taking the heat out of the European Community's row with America over farm trade.

Commission officials, while anxious to avoid the impression of cashing in on America's troubles, feel that in coming months they may be able to take advantage of the recent surge in agricultural commodity prices to offload some of their surplus stocks on world markets.

Significant savings could be made in the subsidies which *bridge the gap between artificially* high EC prices and the generally much lower levels obtainable on the free market. No estimates have yet been made officially but the recent Ecu20 to Ecu25 per tonne cut in the so *called "restitution" paid to EC* exporters – made possible by the higher prices – would be "worth" nearly Ecu500m ($570m) if (as in a typical year) some 20m tonnes of EC cereals were sold outside the Community.

But more important *in the longer term* is the likely effect of the drought on negotiations to dismantle global farm subsidies in the General Agreement on Tariffs and Trade. The recent communiqué from the Toronto summit of *leading industrialised nations* has been interpreted in the Community as a sign that Washington is starting to climb down from its demand for an end to all agricultural subsidies by the end of the century. Some experts in Brussels are privately hoping that the spectre of crop failures will confirm the EC view that some farm subsidies (and the stocks they help to create) are not necessarily such a bad thing.

Others fear that the current climatic conditions – "a short term aberration," says one – will dangerously weaken the growing resolve to take politics out of agriculture. As Mr Brian Gardner put it in Agra Europe magazine this week: "The stage is now set – with the co-operation of global weather and the US political situation – for an agricultural surplus problem of grotesque proportions in the early 1990s. As the North American drought *scorches up the wheat crops of* the Great Plains and the maize of the Middle West so the world grain price will rise, the Americans will remove controls on their production, the men in the Berlaymont building in Brussels *will puff out their chests with* misplaced pride at their skill in "reforming the CAP" [Common Agricultural Policy] and settle back to watch the bill for export restitutions shrink. As they do the pressure will be off to impose *further restrictions on cereal production.*"

One observer in the Commission fears a repeat of the early 1980s when the sugar price and other commodity prices shot upwards, the problems of surplus production appeared to have been "solved," and the timetable for action was put back several years. "The trouble is that when prices go sky-high farmers will just plant more for next season," sighs another senior market man. The short-term implications of the drought will not be clear for at least a few of weeks since many US crops could be partly or even fully salvaged if the rains return soon. The European harvest is only starting to come in in the southern part of the Community so at this stage there is little export activity from the so-called free market (i.e. using export restitutions).

Additional complications for traders have been created by the fact that the farm price package (and the green currencies which convert common Ecu denominated prices into local money) has not yet been finally agreed.

The EC has recently sold around 1.1m. tonnes of cereals from its intervention stores, but stocks at around 12m tonnes are not high by recent standards and there are signs that the Commission is pursuing a cautious policy while conditions remain so unstable. The adverse impact of the drought already predicted on US durum wheat production, however, suggests that the EC's 2m tonnes of durum wheat stocks can be reduced.

In the event of other serious *US crop failures, much will* depend on how far the Americans run down their supplies to maintain their share of world markets. The possibility of increased demand on Community grain – and hence a rise in EC internal prices – is not being ruled out.

Recent increases in the world price of corn gluten and soya has inspired suggestions that demand by the animal feed industry for feed cereals will be given a boost. The prospect of greater "incorporation" of EC cereals into animal feed is increased by the current scarcity in the EC of skimmed milk powder, another competing ingredient.

Robert Graham reports on tensions between Bahamas and the US

Drugs scandal haunts Sir Lynden

GOSSIP and speculation accompany every government move in a small society such as the Bahamas, with its population of 240,000. A well-publicised request from the Cubans to open an air link between Havana and Nassau is under the rumour-mongers' microscope right now.

According to the conspiracy *theorists, the Government of Sir* Lynden Pindling is encouraging the Cuban link to signal displeasure at the threatening noises coming from the US over a possible indictment on drugs charges. Sir Lynden laughs off this suggestion: "*We are too small (vis-a-vis the US) to be machiavellian.*"

However, Sir Lynden does not hide his annoyance with the Reagan Administration and what he sees as a series of attempts to discredit him and to undermine *his authority in the Bahamas,* where he has been Prime Minister for 20 years. "The Americans all believe in the strongman principle and that when he goes all the soldiers will fall down. . . they seem to forget we have a parliamentary system and that I have been elected," he says with feeling.

The fundamental dispute between the Pindling Government and Washington is over drugs. There is no suggestion, for instance, that the Bahamas should threaten the treaty which permits the US secret submarine warfare testing facilities in the unusually deep tongue of the ocean between Andros and New Providence islands. But the dispute reflects the vulnerability of a small Caribbean state when Washington seeks a scapegoat for its own inability to deal with a domestic issue, in this case the spread of drugs.

The bulk of cocaine entering the US from Latin America transits the Bahamas en route for South Florida – as much as 100 tonnes out of 175 tonnes last year. The Bahamian Government says it is co-operating as best it can with limited resources to prevent the flow, conscious of growing drug-addiction and drug-related crime in the islands.

The US position was spelled out before the Senate Appropriations Committee earlier this year: "Despite the impressive achievements in narcotics seizures and *the climate of co-operation* between our two governments on most anti-drug matters, narcotics-related corruption remains a serious problem in the Bahamas. The Bahamian Government has not dealt effectively with systematic corruption which continues to make the Bahamas attractive to drug traffickers."

Mr Paul Adderley, the Bahamas attorney-general, concedes that part of the cocaine gets through because the drug mafia *is bribing people on the ground* but he rejects any suggestion that corruption is generalised. In a recent reply to criticisms, Mr Adderley told the State Department: "If corruption is needed to move cocaine and marijuana from Colombia and marijuana from Jamaica through the Bahamas by air and sea to the US, why is it not needed to successfully deliver these shipments into Florida?"

The mutual accusations might have died down had drugs not become an American election issue and if a zealous Florida attorney, Mr Robert Merkle, had not sought to pin an indictment on Sir Lynden. Mr Merkle is responsible for one of the two drug charge indictments obtained this year against Gen Manuel Antonio Noriega, the Panamanian strongman. His investigation is on the basis of testimony during the trial of Mr Carlos Lehder, a leading member of the biggest Colombian cocaine ring, the Medellin cartel.

Last month a Florida court convicted Mr Lehder for importing 3.3 tonnes of cocaine into the US via the Bahamas. During the trial, a witness, (a convicted drug smuggler), alleged he had handed Sir Lynden a suitcase containing $400,000 at a Bahamas casino in 1980. Three other witnesses also alleged that the Bahamian Government, *including the Prime Minister*, was taking money from Colombian drug dealers to facilitate transit of shipments to the US.

Pindling: 'too small to be machiavellian'

Sir Lynden describes these allegations with characteristic earthiness as a "load of cow's manure." Calling up his barrister's background, he picks holes in the witnesses' statements and maintains: "There is absolutely no basis for an indictment." Furthermore the controversy surrounding the indictment of Gen Noriega is likely to make the Reagan Administration cautious on such matters.

The allegations against Sir Lynden relate to incidents between seven and nine years ago. In private, senior Bahamian officials admit that public morality was much looser then, when the likes of Mr Lehder arrived on the scene (to build a tourist complex at Norman's Cay, strategically placed in the northern Bahamian chain close to Florida).

Mr Adderley says much has changed since the Royal Commission published its report on corruption in 1984. The report documented widespread corruption right up to the cabinet. One of the bones of contention between *the Bahamas and the US is that a* Pindling associate named in the report, Mr Nigel Bowe, is wanted on drugs charges in Florida but has not been extradited.

The opposition believes that since the Bahamas follows the Westminster model of government Sir Lynden should have resigned. Otherwise they have to accept his denials of wrong-doing on his honour. Nevertheless, the premier's critics are still demanding a fuller response to the questions raised by the report. This found that between 1977 and 1983 he and Lady Pindling had earned "approximately $500,000 and has spent in excess of $4m," most of this connected to a mansion in the select suburbs of Nassau. A case is on appeal before the Privy Council in London whose outcome could force Sir Lynden into greater disclosure of his assets.

Since the 1987 elections were fought on the issues of corruption raised by the Royal Commission report, Sir Lynden maintains his convincing win has vindicated him. He has lost little of his appeal on the islands as the father of independence, the man who has broken white minority power and who has enabled large numbers of black Bahamians to join the middle class.

But until the scandal of drug-related corruption is erased, the reputation of the Bahamas remains tainted. This rubs off on the islands' image as a respectable offshore financial centre and as a haven for US tourists in the Caribbean.

New car telephone standard 'too tough'

BY TERRY DODSWORTH IN LONDON

THE INTRODUCTION of the planned Pan-European Digital Car Telephone System, one of the flagship projects for the European *Community's 1992 market* integration programme, is running into serious problems because of over-specification of technical standards, according to manufacturers involved in the project.

Mr *Ake Lundqvist*, head of the radio systems division of Ericsson, Europe's leading manufacturer of mobile telephone equipment, said yesterday there was a clear risk that the new network would not be ready for launch on the target date of June 1991.

"The specification is suffering from a burden of technical complexity that may be too heavy for the market to carry," he said.

Mr *Lundqvist's* remarks, made in London at the Financial Times conference *on telecommunications* and the European business market, echo the feelings of other European manufacturing companies working on the Pan-European mobile telephone programme.

Criticism has been muted so far because of the importance of the project. But manufacturers are no longer concealing the fact that they have come into increasing conflict in recent months with officials from some of the network operating companies who want to lay down highly detailed specifications for the new system.

"We share Mr Lundqvist's worries," Mr *Mike Pinches*, managing director of Orbitel, the joint company set up by Plessey and Racal in the UK to work on digital mobile technology, said yesterday. "We think we can still make the introduction date, but *it will not be easy. I have been* warning for some time that if we are in doubt about a particular standard we should leave it out."

Agreement on the common standards principle last year was regarded as a breakthrough in the plan for European industrial harmonisation. Officials argued that the project would help telephone equipment manufacturers in the region, because they would be able to design and build products for a large, homogeneous *market for the first time.*

The manufacturing companies, which have only recently been allowed a strong voice in European telecommunications standards-setting, do not contest the importance of establishing basic specifications. But they argue that over-elaboration will stifle innovation at a time when it is important to speed up development to help stimulate the market.

Europeans cautioned on liberalisation, Page 3

Rembrandt to create European-based unit

BY ANTHONY ROBINSON IN JOHANNESBURG

REMBRANDT, the secretive South African tobacco-based conglomerate, is to float off its international interests into a new European-based holding company.

The group owns a third of Rothmans International in the UK and interests in a string of luxury, branded products including Cartier, Dunhill and Piaget.

Analysts believe Rembrandt's international portfolio holdings alone would be worth some $1bn, while the strategic stake in Rothmans could add another £300m ($510m).

Mr Johan Rupert, managing director, said *the move* was intended to put the group into the right position before theunification of the European Community market in 1992.

"If you are not a major player in this market of 320m people you'll be dead. To be a major player you need the kind of clout that only the largest European companies currently wield," he added.

He denied suggestions that the spin-off was also intended to disguise its South African links.

Shareholders in Rembrandt's four main listed companies will be offered shares in the as yet unnamed European holding company.

These will be quoted on an unnamed European stock exchange, as well as in Johannesburg, but details will be revealed to shareholders only in August.

Rembrandt *made the* announcement yesterday while reporting pre-tax profits up 28 per cent to R633.9m ($193.8m) for the year to March.

It is the flagship for three other Johannesburg quoted companies – *Technical and Industrial* Investments, Technical Investment Corporation and Rembrandt Controlling Investments – which have major or controlling stakes in a broad-swathe of South African and international businesses.

These include 10 per cent of Gold Fields of South Africa, the local offshoot of the UK's Consolidated Gold Fields.

Mr Rupert, who is the son *of* Dr Anton Rupert, Rembrandt's founder, said: "The new group will rest, inter alia, on luxury goods investments, our Rothmans interests and financial services companies."

As a result of the new arrangement, "the aggregate distributable dividend payable to group shareholders is expected to increase materially," he added.

For its latest year, Rembrandt is paying a total dividend of 17 cents a share, up from 12.5 cents.

West Germany expected to raise discount rates

Continued from Page 1

from the D-Mark with a rise in the discount rate.

West German economists noted that the call money rates were now near the 4.5 per cent level of the *Lombard* rate at which commercial banks borrow short-term emergency funds from the Bundesbank using securities as collateral.

Such a move would irritate the US which pressed for assurances at last week's Toronto economic summit that the Bundesbank would resist further rises in interest rates beyond the ¼ point increase in its repo rate.

The Bundesbank's view, however, appears to be that as long as expectations in foreign exchange markets point to a strong dollar, there will be continuing upward pressure on West German borrowing costs. It is also concerned to counter the risk of higher inflation generated by a weak D-Mark and to rein in the growth of the money supply.

European monetary officials said the success in arresting the dollar's decline created an inevitable pressure for interest rates outside the US to be pulled up towards US levels.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Aalbo	F	25	77	Dubrovnik	S	26	79	Malta	S	28	82	Rhodes	S	32	90
Algiers	S	28	82	Edinburgh	C	14	57	Manchester	F	17	63	Rio de Jo	C	23	73
Amsterdam	C	17	63	Faro	C	32	72	Manila	C	32	90	Rome	F	27	81
Athens	F	37	99	Florence	F	26	79	Melbourne	C	11	52	Salzburg	F	24	75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

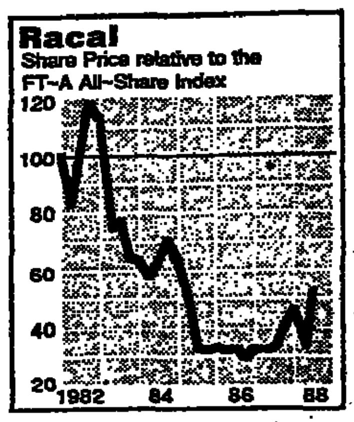
THE LEX COLUMN

Weighing up the Racal case

There is no question that shareholders in Racal are much better off than they were a couple of months ago. The shares are more than 40 per cent higher than they were before the announcement of the Vodafone flotation, and a prospective multiple of a shade under 20 times earnings is generous indeed for a company with Racal's track record. However, *there remains the question of* whether Racal's recent actions are designed solely to maximise shareholder value, or whether there are other less selfless objectives, such as spoiling a potential takeover bid which might make *shareholders even* wealthier.

There is a danger that in all the excitement being whipped up by the flotation, two issues are becoming muddled: how to ensure that the phenomenal growth of Vodafone is more fully *reflected in the Racal share price,* and the equally important question of whether Racal management should be entrusted with as much as £500m of new money. As often happens, the institutions appear more concerned with the niceties of pre-emption rights, and ensuring that the smart Wall Street investors do not make a fast buck at their expense, rather than with the larger question of whether Racal should be given so much money to spend on businesses which are unlikely to be anywhere near as profitable as Vodafone.

Unlike most of its rivals, Racal can point to its success with Vodafone and Chubb to support its call for extra cash. However, the fact that Vodafone's stellar performance masked a dismal performance in the rest of Racal's business suggests that it might be better advised to raise cash by selling off some of its poor performers. If, on the other hand, Racal really needs to tap the market, it has yet to make a convincing case against a conventional rights issue.



Markets

As both the economy and the market were calling for a rise in base rates of a full percentage point, yesterday's increase to just 9.5 per cent suggested to some that the Government must be stubbornly committed to half point movements. While the explanation accords with recent behaviour, it is surely a mistake to think the authorities have tied themselves down in this way. More likely, the Government chose a half point movement to give itself more scope next time, fearing that a larger jump to 10 per cent would have a spurious air of finality.

In taking the flexible option, it risked upsetting the foreign exchange markets, but has got away with it - thanks to the beating the dollar took from European central banks yesterday. The Bank now faces a comfortable combination of sterling fractionally stronger, and the money markets predicting higher rates with slightly less urgency than before. The timing of the next rise will depend on whether the Bundesbank takes the lead on Thursday; if not, rates may stay put for the next week or so.

Meanwhile, yesterday's intervention seemed at first to have been equally well judged; and even though the dollar was only squashed temporarily, the central banks do not seem to have *thrown their money* away. Part of the reason for the dollar's latest rise was doubt over the authorities' willingness to intervene after the Toronto summit. With the market already beginning to question how far the dollar can go on climbing, the threat of more intervention may put a stop to impulse buying.

S&W Berisford

The fact that S&W Berisford's shares continue to trade at a 15 per cent discount to the food sector – despite the larger than life presence of Associated British Foods in the background as a potential bidder – suggests that the market is either bored with the shares or frightened by them. The answer seems to be both: the bits of the business which provide a steady stream of income – primarily British Sugar – fail to excite, while those which could add some spice to life – commodities, financial services and property – are faulted for their volatility.

Announcing yesterday's interim results, the company was at pains to stress that its financial services division escaped black Monday with a small profit, its commodities operation is more physical than speculative, and the profits of its property division were 39 per cent higher than the previous year. But the market seems to look at all that and see only uncertainty for the future – which is slightly unfair given the amount of restructuring already completed, but probably not unfair enough to justify a rating in line with the sector average.

For the moment it is difficult to see what will help the shares better their current prospective rating of about 10 times earnings, unless it is a bid from ABF. Last year's offer was dropped ostensibly because ABF was concerned about the impact of the crash on Berisford; now that those worries have been been laid to rest, another bid on the anniversary of the first must be a strong possibility.

Smith New Court

Smith New Court's results confirm the picture of a firm holed by the crash, but not below the water line. The list of direct hits *is fairly comprehensive*: the BP underwriting, traded option losses, private client defaults and a £2m provision for unsettled bargains. Underlying all that, though, is a bottom line profit in the second half – starting in the week after the crash – of around £3m. This is pretty meagre, but should be sustainable on Smith's own working assumption that market volume this half year will be similar to last.

The chosen strategy is meanwhile being doggedly pursued: no lay-offs, and proceeds from market-making being ploughed into the broking side. Growing an in-house research team is a painful *business, but Smith is doubtless* right in thinking that the process has gone far enough to rule out a broking merger, such as the much-touted one with James Capel. It is still too early to say whether the strategy of independence will pay off, but the same is true of agency brokers like Capel and Cazenove. The approach is not, perhaps, as risky as it looks: should the going get really rough, an independent with Smith's share of the market would find it easier to form links than an integrated house would to dissolve them.

FINANCIAL TIMES
Wednesday June 29 1988

IBM moves to broaden scope of patent portfolio

BY LOUISE KEHOE IN SAN FRANCISCO

INTERNATIONAL Business Machines, in a statement that appears to have broad implications for the entire computer industry, yesterday said it believed that "anybody who is developing an information-handling system probably needs to use an IBM patent."

While hundreds of companies already have patent licensing agreements with IBM, the world's largest computer company, it seems determined to broaden protection of its patent portfolio.

IBM said it holds 9,000 patents in the US and 23,000 worldwide. Yesterday's statement follows reports that IBM has approached several companies in the personal computer and Risc (reduced instruction set computer) systems businesses to inform them of its patent claims.

IBM confirmed that it had contacted makers of Risc systems as a "first step, to make them aware of IBM patents and of IBM's policy of licensing its patents under reasonable terms and conditions."

"A second step, which we have not yet reached, might be to talk to these companies about possible infringement," IBM said.

The current focus of IBM's patent enforcement efforts appears to be Risc, a radical approach to computer design that is quickly gaining support in the computer industry. Risc involves minimising the number of instructions "understood" by a computer and greatly simplifying its architecture to achieve high speed computing.

Several major computer companies, including Hewlett-Packard, Sun Microsystems and Motorola have adopted Risc for their latest processor designs.

IBM researchers invented Risc in the early 1970s and the company holds more than 12 "early and key patents" on the technology. In addition, IBM says that it has filed applications for about 100 more patents relating to Risc.

IBM's patents go well beyond Risc, however, to cover technology fundamental to the computer industry.

BZW in share trade system

BY ALAN CANE IN LONDON

BARCLAYS DE Zoete Wedd, the London Stock Exchange market maker, has launched an automatic share trading system system which it claims is the most comprehensive yet, and represents direct competition for the Stock Exchange's own system.

The BZW system, called Trade and developed with the stock processing bureau NMW Computers, is expected to go live next month. The exchange's system, called Saef, is due to start in November.

Trade and Saef are small order execution systems – automatic, computerised methods for buying or selling small parcels of shares. They are already extensively used in US stock exchanges. Mr Dan Sheridan, director of UK equity and gilts for the London Stock Exchange, said yesterday the exchange was not worried by competition for Saef from member firms.

Kleinwort Grieveson Securities of the UK has been operating a small order processing system, called Best, for the 15 months.

BZW's Trade involves an electronic link between stockbroker and market maker. The current "touch" (best) bid and offer prices calculated by BZW's computer system will be supplied to agency brokers; deals will be entered once only through a personal computer and the system will automatically send details of bargains both to the market maker and the broker's own back office system. It is this "end to end" comprehensiveness that BZW believes gives Trade the edge over either the Stock Exchange or rival systems.

Costs for Trade are likely to be £1,000-a-year software licence fee plus £200 ($360) a terminal, £1,000-£2,000 installation and training costs plus network charges of 15p a transaction. Final prices for Saef have yet to be decided.

MSA shares soar after it rejects bid

BY RODERICK ORAM IN NEW YORK

SHARES IN Management Science America, a leading US seller of applications software for mainframe computers, soared yesterday following its rejection of a takeover offer from Computer Associates International.

MSA's stock rose $4¼ to $11¾ in heavy early trading. CA's offer price of $11½ a share values the Atlanta-based company at $191m.

The board adjourned the annual meeting from Monday to July 12 to allow shareholders more time to study new agenda items. One, for example, would allow the board to study the integrity, experience and competence of would-be suitors.

With the help of some 16 takeovers since 1982, Computer Associates, based in the New York City suburb of Garden City, has pushed up its revenues from $58.2m in the fiscal year ended March, 1983, to $709.1m in the fiscal year ended last March 31.

Citicorp in talks with troubled Texas bank

By Anatole Kaletsky in New York

CITICORP, the biggest US commercial banking group, has approached First Republic-Bank with a view to a possible acquisition of the insolvent Dallas-based bank holding company.

Although Citicorp has refused to comment publicly on the possible acquisition, some of the bank's officers have been studying First Republic's books since the beginning of this week, according to industry observers in Dallas. However, the approaches have been highly tentative and any purchase would seem to be a very long way off.

First Republic, meanwhile, said it expects to report "substantial further losses" in the second quarter following a $1.5bn loss in the first quarter, according to Mr Al Casey, chairman.

"Preliminary indications show substantial further losses as we continue the restructuring to put the bank in as sound a condition as possible," he told the annual meeting.

The Federal Deposit Insurance Corporation, the government agency which effectively took charge of First Republic's future when it initiated a $2.8bn rescue last March, has said that it is talking to several groups which have expressed interest in buying the troubled bank.

Any potential merger partner, however, would certainly require large amounts of FDIC assistance.

In past negotiations, Citicorp's management has repeatedly decided that the Federal guarantees on offer were not sufficient compensation for the risks of buying insolvent banks. The general view on Wall Street is that Citicorp will reach the same conclusion in this case.

Canute James explains why Jamaica has engaged the advice of a UK merchant bank

Seaga revamps sell-off strategy

THE JAMAICAN Government has revised its approach to divesting state-owned companies, following problems with the sale of half of the island's largest commercial bank and an apathetic response to an offer of 13 hotels.

Samuel Montagu, the British merchant bank, has been hired by the government to assist in the divestment of the hotels, after the programme failed to reach its target of selling off US$149m worth of state property last year. The government said proceeds from divestments for the year reached $89m.

Officials say the changes follow "slight hiccups" in the divestment programme. This is to be broadened in September when an offer will be made of between 10 and 15 per cent of the government's stake in Telecommunications of Jamaica, in which Cable and Wireless of the UK holds a 39 per cent stake.

The programme is part of the Jamaican Government's effort to raise revenue to cut its fiscal deficit and remain within its agreement with the International Monetary Fund, which calls for a progressive reduction of the deficit.

Mr Edward Seaga, Jamaica's Prime Minister and Finance Minister, has said the state enterprises which are being sold do not need public sector involvement for their continued operation. The divestments began in late 1986 with the successful sale to Jamaican institutional and private investors of 51 per cent of National Commercial Bank (NCB), which was created a decade earlier from the government's purchase of the local operations of Barclays Bank of the UK. This was followed last year by the divestment of the Caribbean Cement Company, the island's only producer, in which the Norwegian Cement Company took a 10 per cent stake.

The Government is keen to prevent any enterprise falling under the control of a single group or institution after divestment. So in the first part of the divestment of the NCB, the government prevented any purchases of more than 7½ per cent of the shares by any one group. That offer was oversubscribed with applications for 84.5m shares when only 30.6m were on offer for $16.36m. The remaining 49 per cent of the NCB shares were offered earlier this year but withdrawn amid indications that some investors were attempting to gain control of more than 7½ per cent of the assets.

Mr Mayer Matalon, chairman of the National Investment Bank, a holding company responsible for state enterprises, said there was evidence that an attempt was being made to create a cartel in NCB shares. "Several applicants had attempted to act in concert, and the remarkable consistency of a large number of bids supported this," he said. "Given this we decided to withdraw the entire placement."

The Government has not yet decided if and when it will make a new offer for the second half of NCB. Mr Richard Downer, who advises the government on divestments, said no plans were in place because ". . . . the state of the market is not now conducive to anything."

There is no indication what protective measures the National Investment Bank will use to prevent any groups of investors or institutions from cornering the issue. Stockbrokers said they were not surprised at efforts to get control of large blocks of NCB shares because they represented "a very good and potentially valuable investment." In the six months ended March of this year, the bank recorded pre-tax profits of $3.65m on revenues of $57.9m.

The divestment of the state-owned resort hotels is the largest part of the programme and government officials say it could raise about $150m. One property has been sold, but the offer has not been received as enthusiastically as the administration had hoped because of an apparent interest in leasing rather than outright purchase.

Mr Seaga said the speed of the hotel divestment programme had been affected by the need to put the properties' accounts in order. But the effort has also been delayed by the requirement that purchasers make a part of the payment for the property in foreign currency – a condition which will be difficult for local purchasers operating in an economy strapped for foreign exchange.

The Government has turned to Samuel Montagu in an effort to assist buyers of the hotels. "The British bank is assisting in marketing the hotels," says Mr Oliver Clarke, head of the Hotel Divestment Unit. "It is helping to identify potential purchasers and also to raise foreign exchange for potential purchasers."

The Government is also seeking buyers for parts of the state-owned Jamaica Broadcasting Corporation, which runs the island's only television channel and one of its two radio stations, and prospective investors will also be able to buy the government's minority holding in Radio Jamaica, the other station.

The desire to get out of enterprises which do not need state involvement has not prevented the Government from moving in the opposite direction when it feels it must. It has bought a 44 per cent stake in a local bauxite refinery owned by Aluminum Company of America, which was part of the settlement of a dispute with the company over the reopening of the plant, closed just over three years ago. The Government paid $26m for its share of the facility, in which it already held a 6 per cent interest.

Racal to float Vodafone stake in October

BY PHILIP COGGAN IN LONDON

RACAL ELECTRONICS, the UK electronics group is to float off 20 to 25 per cent of its telecommunications division in October, in what looks set to be the largest ever non-privatisation issue on the London stock market.

Analysts yesterday estimated that Vodafone would be worth about £2bn ($3.6bn) – implying issue proceeds of £400m to £500m.

Racal did not spell out the details of its plans for the Vodafone float yesterday, beyond saying that the shares would be offered both in the UK and in the US.

The UK group's plans to spin off the division, which largely consists of the Vodafone mobile telephone business, have been the subject of much institutional disquiet since Racal revealed its intentions in April.

Some saw the float purely as a device designed to head off potential predators such as Cable and Wireless, the telecommunications group which recently announced a 2.8 per cent stake in Racal.

Yesterday Racal also reported a 38 per cent rise in pre-tax profits to £138m in the year to March 31, mainly because of a near quintupling in telecommunications profits.

However, most other divisions posted profit declines and the company's shares fell 5p to 340p.

The board does not favour a rival scheme, proposed by its single largest shareholder, Millicom, for a demerger of the division but both plans will be put to shareholders at an Extraordinary General Meeting in August.

Institutional misgivings have centered on the extent to which their holdings could be diluted if the flotation is skewed too heavily towards outside investors.

Sir Ernest Harrison, Racal chairman, said he would continue to discuss with shareholders the extent to which their pre-emption rights would be safeguarded.

His remarks were yesterday cautiously welcomed by institutions.

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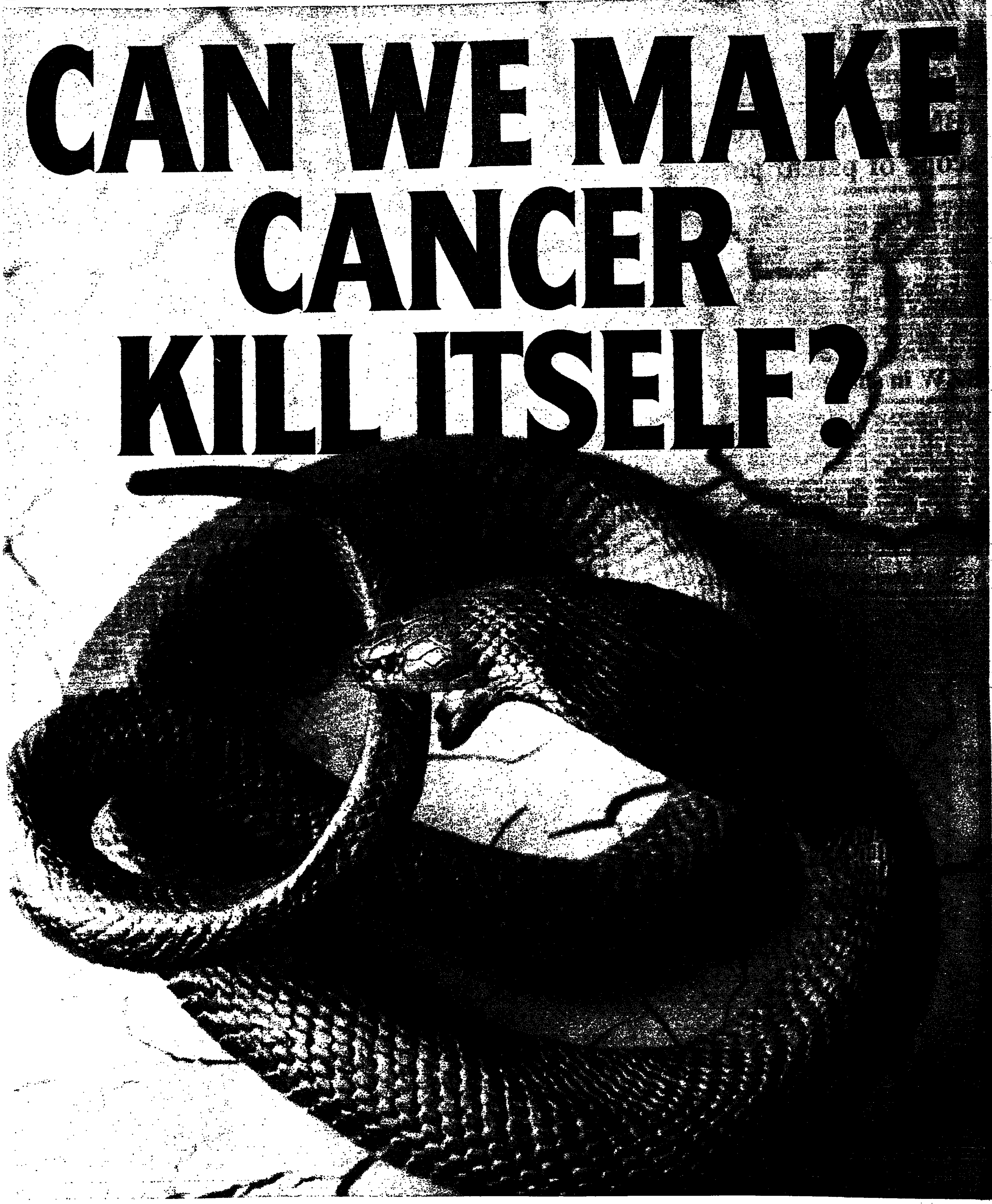
CAN WE MAKE CANCER KILL ITSELF?



What makes cancer deadly is the way its cells multiply completely out of control.

Steadily the tumour grows and seed cells drift through the body to colonise new sites.

But cancer isn't invincible. Our scientists are working on a new technique that starts with live cancer cells taken from the patient's own tumour.

First, cells from the tumour are irradiated so that they are no longer able to multiply.

Then they are re-introduced into the patient's body, to goad his immune system into action.

This also enables us to find and isolate vital antibody-producing cells which can then be put to work for us in the laboratory.

We can use the antibodies to seek out and attack similar cancers in other patients.

This piece of poetic justice is called the human monoclonal antibody technique.

It's just one of several encouraging steps our scientists are currently excited about.

As one of the world's biggest chemical companies, 68,000 strong, at work in fifty countries, active in healthcare, chemicals, fibres and coatings, we spend millions each year on research.

Every year we make new discoveries. But nothing would give us as much satisfaction as turning cancer against itself.

AKZO

Generali puts a brave face on failed Midi bid

BY ALAN FRIEDMAN IN TRIESTE

MR ENRICO RANDONE, the 77-year-old chain-smoking chairman of Assicurazioni Generali, Europe's third biggest insurance group, yesterday spent several hours trying to put a brave face on the Italian insurer's failed attempt to achieve control of Compagnie du Midi, the diversified French insurance company.

The poker-faced Mr Randone, who has dedicated the last 51 years of his career to Generali, disclosed that his group has spent nearly $500m to end up with a mere 8.52 per cent share stake in Midi.

But he shrugged off hostile questions about Midi from shareholders attending the Generali meeting in Trieste and then, later at a news conference, he simply refused to answer a volley of queries about Generali's next move in France. Mr Randone's official line yesterday afternoon was that the Midi transaction "is a sound investment."

Mr Randone, whose beloved Generali is the world's second biggest insurer in terms of market capitalisation ($15.1bn), often insisted he had committed no errors in his attempt to become "a significant shareholder of Midi."

The Midi saga has seen Generali pay a total of L599bn ($461m) for the 8.52 per cent stake on the advice of Lazards Frères of Paris and Mediobanca of Milan, the two merchant banks which are Generali's largest single shareholders. Mediobanca has bought a further stake, as has Lazards, but Mr Randone claimed he could "not remember" how much Lazards had acquired.

Generali, Mediobanca and Lazards together control around 12 per cent of Midi. The three were stopped in their attempt to win effective control of Midi when the insurer merged with Axa, another French group, thus diluting the Italians' share significantly, giving Axa 28.6 per cent of Midi and raising the cost of any further share purchases by Generali.

The Bank of France's credit committee has placed a ban on Generali acquiring more than 10 per cent of Midi, a move that the Trieste-based insurer is appealing. But French bankers have said in recent weeks that Generali lost its chance ot gain control of Midi some months back by not launching a public takeover bid.

"The public takeover bid," said the stern Mr Randone yesterday, "is an aggressive form of finance and is not in the Generali style." Mr Alfonso Desiata, joint managing director of Generali, followed his chairman's pronouncement by declaring that "99 per cent of the takeover bids launched in the world are strictly financial operations and have nothing to do with industry or the real economy."

The only thing Mr Randone would confirm yesterday was that Generali is going ahead with legal action in France despite the fact that a Paris court last week threw out an attempt to stop the Midi-Axa merger deal.

Meanwhile, Generali shareholders yesterday approved a L1,100bn jumbo rights issue designed in part to fund the purchase of shares of Midi. Generali's consolidated group net profit rose by 3.9 per cent last year to L468.6bn, while total premium income increased by 23.9 per cent to L9,717bn.

Saurer to raise funds in stages

By Our Geneva Correspondent

MR TITO TETTAMANTI, the Swiss financier who took control of the Saurer engineering company in March, has formulated a three-stage plan for its capital restructuring and its transformation into an industrial, services and investment group.

Saurer Group Holding (SGH), the new company founded by Mr Tettamanti in June after he had bought a 58.6 per cent stake in Adolph Saurer for around SFr82m ($55m), will raise SFr159m in shareholders' equity in three stages.

SGH will increase its share capital to a nominal SFr105m. In a first step, which will raise SFr36m, Adolph Saurer shareholders will be offered one new SGH share in exchange for five old Saurer shares.

A second step will raise the share capital to SFr81m through the issue of 450,000 registered shares at a nominal value of SFr100 each.

SGH shareholders will be offered additional shares at the rate of five SGH registered shares for 20 exchanged Saurer registered shares and 25 SGH shares for 20 exchanged Saurer bearer shares. The issue price will be SFr220.

SGH will acquire in a third stage 10,000 registered shares in Sulzer, the engineering group which Mr Tettamanti stalked for months before selling a 20 per cent to Mr Werner Rey, the Swiss financier.

At the end of the exercise, SGH's capital will comprise 92,800 bearer shares of nominal SFr500 each and 586,000 registered shares nominal SFr100.

The old Saurer company, divested of its truck and diesel engine operations, will form the industrial core of the SGH group.

Its services business will be based on Naco Capital, which will change its name to Saurer Corporate Finance.

French housebuilder seeks tender offers

BY GEORGE GRAHAM IN PARIS

MR ROBERT LEROY, chairman of Groupe Maison Familiale, France's third largest housebuilder, is putting most of his property development empire up for sale.

Maison Familiale said last week Mr Leroy would tell the company's annual meeting on Monday about his plans to open the capital of its housebuilding, property loans and insurance subsidiaries, which he has said in the past needed new partners in order to expand.

He is calling for tenders for these operations, which accounted for around 80 per cent of Maison Familiale's FFr2.97bn ($487m) sales in 1987.

Lazard Frères, the French investment bank, has sent financial documents to a number of French and overseas groups, including UK and Japanese companies, with a view to inviting preliminary offers.

Maison Familiale principally sells houses from catalogue to individuals who want to build a home on their own plot of land. The company also promotes housing developments.

In recent years, Maison Familiale has expanded its financial activities, property credit through Ficofrance and life and accident insurance through Sociafrance.

The group made total profits of FFr117.7m last year on turnover of FFr2.97bn, but Mr Leroy and his family will keep the hotel and low-income housing divisions.

The open bid technique has been used increasingly in France in the last year. It was used for the sale by Midial of the Poulain chocolate producer to Cadbury-Schweppes of the UK.

Large numbers of family-controlled French companies are expected to face succession problems in the coming years, so open bids are likely to become increasingly frequent.

Swiss financier sets a price on Omni Holding

BY WILLIAM DULLFORCE IN GENEVA

MR WERNER REY, the Swiss financier and industrialist, yesterday announced a price of SFr1,000 ($666) a share for the first public equity offering by Omni Holding, the parent company of his group.

At the same time he reported a net profit of SFr56.2m for 1987 and forecast net earnings of SFr75m for 1988. The 1987 profit is not comparable with 1986 because of radical changes in the composition of the group.

Some 72,000 shares will be available for new shareholders from Omni Holding's total issue of 268,000 bearer shares at a nominal value of SFr500 each. This will raise the share capital from SFr466m to SFr600m.

A packet of 100,000 shares is being reserved to cover a future convertible loan issue. A private placement of 48,000 shares at the same price of SFr1,000 a share is being made with Swiss and foreign institutional investors.

Of the 120,000 available for public subscription, about 40 per cent are being reserved for current shareholders in International Inspectorate and Ateliers de Construction Mécanique de Vevey (ACMV), the two listed companies in the group.

Rights are 1-for-10 for holders of Inspectorate bearer shares and 1-for-50 for holders of its participation certificates. At ACMV, bearer shares give a 1-for-20 right while holders of ACMV registered shares can obtain 1-for-100. The period for subscription is from June 29 to July 5.

Omni Holding, the parent company, posted a net profit of SFr18m in 1987 while the consolidated balance sheet revealed shareholders' equity of SFr788m and total assets of SFr1.3bn.

In addition to 59 per cent of Inspectorate and 73 per cent of ACMV, Omni owns 100 per cent of Jean Frey, Switzerland's third largest publisher, 40 per cent of Swiss Cantobank and 20 per cent of Sulzer, the Swiss engineering group.

Recently Omni increased to 85 per cent its stake in Omnicorp, the New Zealand company which has around 35 per cent of International Leisure Group of the UK. ILG in turn owns Air Europe.

Akzo steps up fibres shake-up

By Alice Rawsthorn

AKZO, the Dutch chemicals group, is accelerating the restructuring of its fibres interests involving its withdrawal from the polyamide textile market and the modernisation of its polyester plants.

The group also intends to increase its polyester prices to the textile industry by between 7 and 8 per cent by the end of this year. Akzo, like its fellow European polyester producers Hoechst of West Germany and Rhône-Poulenc of France, has faced static prices for the past three years due to increased competition from imports.

Last week's decision by the European Commission to impose anti-dumping duties on imported polyester from seven countries – including Mexico, Taiwan and Turkey – has alleviated the pressure on prices. Mr Udo Stark, deputy president of Akzo's fibres and polymers division, said it would have been "much more difficult" to have increased prices without the anti-dumping action.

Static prices contributed to Akzo's problems in fibres last year. The profits from its fibre business fell steeply, reflecting higher costs and increased import competition. Akzo has responded by intensifying its efforts to cut costs.

Mr Stark said further rationalisation and modernisation was essential if the European industry is to secure the productivity improvements needed to remain competitive within fibres.

Akzo has brought forward the closure of its polyamide plant at Emmen in the Netherlands to the end of this year. Initially it had intended to close the plant by late 1989.

It is also accelerating the modernisation of its polyester plants in Oberbruch in West Germany and Emmen. This programme, which will cost DM350m ($194.4m), is designed to improve quality and cut costs. It will involve the loss of up to 1,000 jobs in the next few years. Mr Stark said all the job losses will be through natural wastage.

Akzo is modernising its Spanish fibre operations and intensifying its research work.

Kvaerner doubles profit

By Karen Fossli in Oslo

KVAERNER INDUSTRIER, the Norwegian engineering, shipping and shipbuilding group, doubled profits before extraordinary charges, to NKr101m ($15.3m) in the first four months of 1988 from NKr52m in the same period last year. Turnover increased by nearly 18 per cent to NKr1.85bn.

At the net level, profits totalled NKr95m, up from NKr50m. Orders in the period reached NKr2bn while total order reserves rose to NKr5.4bn. By the end of April, Kvaerner had amassed NKr1.8bn in liquid reserves and NKr335m in unutilised credits.

The group is about to complete the acquisition of British Shipbuilder's Govan yard in Glasgow.

French insurance group in Italian joint venture

BY OUR PARIS STAFF

GROUPE DES Assurances Nationales (GAN), the third largest of the French state-owned insurance companies, has signed a partnership agreement with Societa Assicuratrice Industriale (SAI), the Italian insurer.

The two groups plan to swap share stakes with GAN taking around 10 per cent of SAI and SAI in return taking a somewhat smaller stake in GAN International, a new holding company which is being formed to include the French group's foreign holdings.

A direct stake in GAN is ruled out because of the company's state ownership, but like the largest state insurer, Union des Assurances de Paris (UAP), the group is able to form partnerships through its subsidiary.

The Chirac Government, ousted in the May elections, had hoped to privatise the state insurance companies but, thwarted by the stock market crash, had authorised them to open up the capital of their subsidiaries.

The partnership is expected to involve SAI using GAN's network of agencies in 17 different countries.

SAI is controlled by Mr Salvadore Ligresti, the former Sicilian property developer turned insurance magnate. Mr Ligresti holds 44 per cent of the company, with a further 22 per cent controlled by a Dutch Rothschild company.

● Compagnie Financière de Suez expects to increase parent company net profits before exceptional items by 30 per cent this year, the French banking and investment group said yesterday. For 1987 net profits totalled FFr425m.

INTERNATIONAL COMPANIES AND FINANCE

Saudi offset investment companies to start soon

By Finn Barre in Riyadh

THREE COMPANIES founded under the Saudi American offset investment programme should start by mid-July, according to Prince Fahad Ibn Abdullah, the programme director.

The programme was established in 1984 when the kingdom awarded a $1.3bn contract to a consortium, led by Boeing, to build the Peace Shield command, control, communications and intelligence (C3I) system.

The system integrates the kingdom's new Boeing-built airborne warning and command system (Awacs) radar surveillance jets into the Saudi air-defence system.

The kingdom required companies competing for the contract to offset part of the contract cost with investments in high technology joint ventures.

When the Boeing-led consortium won in 1984, it proposed a series of investments mainly in aviation.

The first three companies to emerge are Al Salam Aircraft Company (Asac), Aircraft Accessories Company (AACC) and International Systems Engineering Company (Isec).

Asac will perform airframe modifications and repairs on craft ranging from military models to jumbo jets. Capitalised at SR460m ($122.6m), it will be half owned by Boeing Industrial Technology Group (BITG), the consortium participating in the offset investments.

Saudi partners include Saudia, the national airline, with 25 per cent and state investment organisations. A 5 per cent stake will go to Saudi Advanced Industries Company, a publicly held company formed to channel private investment into offset companies.

AACC, capitalised at SR127m, is to be 20 per cent owned by BITG and 30 per cent by Dowty of the UK. Saudia is again among the local partners with 10 per cent.

Isec, a computer services supplier, will be a 50-50 joint venture between BITG and United Systems Engineering Company, a consortium of several Saudi computer companies. Isec will be capitalised at SR61m.

Their launch will be followed by that of Advanced Electronics Company (AEC), which will have a capital of SR630m and will manufacture electronics. Its first product is expected to be military communications equipment. British companies are pressing hard for the contract.

Westinghouse will, in effect, lead the US involvement in AEC although BITG is the actual partner. The Saudi side includes National Commercial Bank and Saudia, with 10 per cent apiece.

A fifth and separate venture under the offset programme will involve General Electric and Pratt & Whitney. They will hold a quarter each in the Middle East Propulsion Center, overhauling turbine engines in partnership with Saudia, which will also hold 25 per cent.

The Saudis have also initiated an offset investment programme with the UK on the $7.5bn Tornado fighter aircraft deal, but little substantial progress has been made.

Salomon buys into NZ state bank

BY DAI HAYWARD IN WELLINGTON

SALOMON BROTHERS, the New York investment bank, is the latest international player to gain a part in the New Zealand Government's privatisation moves, with a deal yesterday in which it will buy 20 per cent of DFC New Zealand, a state-owned merchant bank.

The majority equity partner will be National Provident Fund, New Zealand's largest superannuation fund, which will own the remainder. The price paid for the wholesale sell-off is NZ$111.3m (US$76.7m), which will be used to retire government debt.

The sale ends months of speculation concerning ownership of DFC, which was originally set up as a development bank in the 1960s but which now has extensive treasury activities, especially in foreign exchange.

The Salomon involvement is seen as enhancing DFC's corporate structure. Transfer of ownership is due to take place in November.

Under the deal, NZ$45m will be injected into DFC through an expansion of its capital. Some 20 per cent of the enlarged equity will be sold to DFC management and up to a further 5 per cent allocated to a staff share-purchase scheme.

NPF has about NZ$3bn in assets, compared with NZ$2.5bn for DFC.

Mr John Perham, NPF chief executive, said the purchase would not significantly increase risk for investors in NPF, which has a very small percentage of its own holdings in equities and property.

The large management shareholding was to motivate management and staff to enhance the value of the business, Mr Perham said.

The purchase, which will be settled in US dollars, follows the rejection after the stock market crash of plans to float the company.

● Feltex International, the New Zealand carpet and industrial group, has acquired a superb plant for half its cost when it bought control of New Zealand Steel from Equiticorp Holdings earlier this year, according to Mr John Lindsay, managing director.

He told shareholders yesterday that the previously state-owned steelmaker had a good order book, including a contract with Ferrostaal, the leading independent steel distributor.

The meeting gave approval for the purchase of 80 per cent of NZ Steel as well as Monier, the Australian building supplies group, in a deal which will cost the company NZ$684m.

Shareholders also approved a change of name to Feltrax, sought by the company in order to reduce its identification with textile and carpet production, which now provides only 14 per cent of its sales.

Riyadh plans further oil industry reshape

SAUDI ARABIA'S oil refineries are to be combined in a single company as a further step in reorganising the kingdom's oil industry, writes Finn Barre in Riyadh.

The industry, which has been split between the General Organisation for Petroleum and Minerals (Petromin) and the Arabian American Oil Company (Aramco), is being reshaped in order to eliminate the overlapping authorities of the two companies.

It was announced yesterday that a new company, Petroref, would be established to embrace three domestic refineries – at Yanbu, Riyadh and Jeddah – as well as three joint venture export refineries at Yanbu, Rabigh and Jubail.

Mr Hisham Nazer, Oil Minister, pledged in 1986 that he would reorganise the kingdom's oil industry in order to move downstream internationally and to increase domestic efficiency.

The creation of Petroref follows Mr Nazer's establishment of Saudi Arabian Lubricants (SAL) to merge the lubricant refining and blending activities of Petromin. It also comes after the $800m deal with Texaco earlier this month in which the Saudis will take a half share in its Eastern US refining and marketing operations.

Mr Nazer's biggest task domestically is to reorganise Petromin, which accumulated a bewildering array of companies as it established a refining and lubricants industry at home.

Petromin was also responsible for domestic marketing as well as the extraction of non-oil minerals, such as from the Mahd Ad-Dahab gold mines.

However, Petromin had become notoriously inefficient, and even suffered the ignominy of having its east-west Petroline crude oil pipeline taken away. Aramco was assigned the operation of the pipeline while Sheikh Ahmed Zaki Yamani was Oil Minister.

Mr Nazer intends to turn Petromin into a simple holding company responsible for three main operating divisions – refining, lubricants and marketing. It has not yet been decided what will be done with the mining division.

The only Saudi refinery that will not be part of Petroref will be the Aramco refinery at Ras Tanura, which has a capacity of 509,000 barrels a day (b/d). The three domestic facilities which are included together have a maximum output of just over 400,000 b/d.

Of the three export refineries, Yanbu is run in conjunction with Mobil of the US and has a capacity of 276,000 b/d, Jubail (274,000 b/d) has Shell as a partner and Rabigh (335,000 b/d) embraces Petrola of Greece.

The Ras Tanura refinery may be combined into Petroref later, some in the industry suggest. Alternatively, it could form part of a new National Oil Company, mooted when Aramco was nationalised in the 1970s but never brought into being.

In lubricants, the creation of SAL has not been finalised. Several of the companies being combined are joint ventures with Mobil, and financial details remain unclear.

Qantas renews drive for airline link-up

QANTAS, Australia's international airline, expressed eagerness yesterday to buy a stake in Air New Zealand, that country's state-owned international carrier, AP-DJ reports from Wellington.

Mr John Menadue, Qantas chief executive, said in a statement that the two airlines were natural partners and a link-up would bring economic benefits to both countries.

He was speaking after leading Qantas management in discussions with Air NZ over the possibilities of such an association.

The New Zealand Government intends to sell at least 25 per cent of Air NZ and has asked for offers. A decision on the successful bidder is weeks away, according to the State-Owned Enterprises Ministry.

Among other companies to have shown an interest in the airline is British Airways.

Mr Menadue said a partnership would enable the companies jointly to market the South Pacific region, already one of the world's fastest growing tourist destinations. It would be an obvious extension in the development of the free trade pact between the two nations.

The impact of trading blocs like the European Community had forced the countries to turn away from traditional markets, he added. "This denial of our traditional markets has left us with much in common in seeking new opportunities."

The main benefits of a partnership would be improved tourist marketing, the increased ability to counter leading US carriers and the advantages of combining computer reservation systems.

Mr Menadue said Qantas would welcome New Zealand companies or staff as shareholding partners in Air NZ, which he stressed should retain its identity as New Zealand's airline. There was no intention to merge the two.

Earlier in the year, talks broke down between the Australian and New Zealand Governments on a proposal to merge Qantas, Air NZ and Australian Airlines, a state-owned domestic carrier.

Multi-Purpose Holdings sees better performance

MULTI-PURPOSE Holdings, the Malaysian investment group, expects a turnround in its financial performance in 1988 due to firm commodity prices and the improving Malaysian economy, Reuter reports from Kuala Lumpur.

"I think we are now in the black," Mr Chan Hua Eng, chairman, said after the annual meeting. The plantation sector would be the leading contributor as prices had risen well beyond expectations, he added.

MPH owns substantial interests in Dunlop Estates and Malaysian Plantations. The group reported a pre-tax loss of 29.6m ringgit (US$11.4m) in 1987, against a 57.3m ringgit loss in 1986.

However, the group has no immediate plans to seek new investments because of financial constraints. "We are in no position to invest heavily," Mr Chan said.

Of its subsidiaries, Mr Chan said Magnum Corporation was expected to revive after losses last year, due to the poor performance of a finance company unit and lower profits from gaming operations.

In banking, Malaysian French Bank would set up more branches and was expected to do much better this year. It recorded a pre-tax loss of 12.7m ringgit in 1987, arising from suspension of interest on non-performing loans and provisions for bad and doubtful debts.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Eurodollar retreat clears way for remaining sectors

BY DOMINIQUE JACKSON

THE PERFORMANCE of the US dollar mesmerised the Eurobond market yesterday.

Concerted intervention early in the day by European central banks took the steam out of the dollar's recent rise and both the US Treasury bond and the Eurodollar markets retreated with the currency. This provided a boost for the non-dollar sectors of the market, although rising interest rates and inflationary fears limited their performance.

Nerves and uncertainties meant that trading across the board was dominated by professionals, and the virtual absence of retail investors deterred most syndicate teams. The day's new Eurobond offerings were restricted to a solitary Japanese equity warrant deal, an Ecu convertible and another largely presold yen bond.

The sale of dollars by the central banks, with the notable exception of the Bank of Japan, sent the currency back from its recent eight-month peaks. Sentiment was further undermined by worries about the US Commodities Research Bureau index which has been rising steadily as the drought in the mid-western states of the US persists.

It was no day for new dollar straight offerings and many of the most recent crop slipped to trade well outside their fees.

Although some short covering and a rise in the September futures contract later supported cash bond prices, most Eurodollar issues still finished the day with net losses.

The spotlight in sterling denominated bond markets was focused on rising interest rates following a widely anticipated ½ point rise in base lending rates to 9½ per cent.

Gilts eased in an initial reaction to the news with many dealers expressing disappointment that the Bank of England had failed to sanction a full percentage point rise in rates, now largely discounted in the money markets.

INTERNATIONAL BONDS

However, later in the day as the pound recovered marginally on the foreign exchanges, sentiment improved somewhat and prices finished an average of a ½ point better on a few spurts of concentrated buying. Dealers now expect a period of consolidation, although many said a further rise in interest rates to 10 per cent was not far away.

The retreat of the dollar was good news for the Euroyen market which has seen a bearish run recently in tandem with the dollar-denominated bond market rally. Prices firmed markedly early in the day, although some issues fell back from the day's highs later on.

Dealers said the sector was still proving too volatile to re-attract retail investors.

West German bond markets saw a sharp reversal yesterday in what was deemed a largely technical reaction after falling to eight-month lows on Monday. The concerted intervention by central banks to keep the US dollar in check was welcomed by dealers and both government and Euromark bonds ended the day about ½ point better.

The average yield on all outstanding public paper with maturities longer than three years dropped to 6.21 per cent. Speculation continued that the Bundesbank would raise its key discount rate by ½ point to 3 per cent at its policy council meeting tomorrow, but dealers said this was largely factored into bond prices already. Some even noted that this could further boost the bond markets if it provided support for the D-Mark on the foreign exchange.

Westdeutsche Landesbank led a DM200m three-year issue for one of its own financing subsidiaries. The 4¾ per cent deal at 100½ is to be placed mainly within WestLB's own network of retail savings banks and is not expected to trade widely.

Nomura International led a $50m deal with equity warrants for Mutow, the Japanese mail order company. The coupon on the five-year deal is indicated at 4¼ per cent.

Société Générale in Paris led a Ecu250m deal for Compagnie Générale d'Electricité. The coupon on the issue, which matures in 1996, is indicated between 5¼ and 5½ per cent.

Late in the day, Bankers Trust led a Y10bn deal for Banca Nazionale del Lavoro, a four-year deal at 7½ per cent and 101⅝. The bond's redemption is linked to the Nikkei-Dow stock index. It is not expected to trade widely.

In Switzerland, trading was dominated by more interest rate uncertainty. Bond prices eased around ¼ point on average in only moderate trading. Eksportfinans had a deal with currency warrants trading for the first time. The SFr100m five-year deal closed at 97¾, two points below its 99¾ issue price.

Bergen Bank faces downgrading

BY KAREN FOSSLI IN OSLO

BERGEN BANK, one of Norway's largest banks, has been placed on the watch list for Standard & Poor's, the New York-based credit rating agency, for potential downgrading of its current A1 rating.

The move follows Bergen Bank's recent purchase of the financially troubled Vesta insurance group subsidiary, Nevi, Scandinavia's largest finance and leasing company. An S&P official said that Bergen Bank's purchase of Nevi placed a heavy burden on the bank.

S Korea's comeback intrigues market

By Maggie Ford in Seoul

SOUTH KOREAN companies returned unexpectedly to international capital markets this week in a move which has intrigued foreign banks and financial firms.

Seoul, formerly one of the most active borrowers, has stayed out of the international arena for more than a year as its current account surplus was used to pre-pay foreign debt.

Ways to adjust from a deficit economy were devised.

This week, however, the issue of a $30m second tranche of the London-listed Korea-Europe Fund has provided a further opportunity for foreigners to invest in the Korea Stock Exchange. At the same time, Samsung Semiconductor and Telecommunication (SST), the microchip producer, launched a $50m fixed-rate bond in the Euromarket.

In Hong Kong, bankers reported that Posco, the partially privatised steel company, was seeking a $270m syndicated loan.

The burst of international activity was welcomed by foreign bankers, who had increasingly felt that South Korea was turning away from its former policy of taking part in the international capital markets following the success of its economic policy.

The Ministry of Finance has not announced any new policy on foreign capital, but bankers believed that the appearance of the state-controlled Posco in the market was significant.

Posco normally raises investment capital through export credit funding associated with its mainly European suppliers.

It recently raised about $660m on the South Korean stock market under a partial flotation.

The ministry's policy in the past year has concentrated on the prevention of additional capital inflows beyond the current account surplus, because of inflationary fears. Funds raised by companies launching convertible Eurobonds were earmarked for spending abroad, such as on new plants.

It is not clear whether this rule will apply to the latest Samsung bond.

SST's bond marks the first time a Korean company has issued a fixed-rate dollar denominated bond, although floating-rate notes and convertible bonds have been launched.

Although South Korea usually follows the Japanese pattern in its international financial dealings, bankers noted that SST had launched the bond without a bank guarantee.

The seven-year bond, carrying a 9⅞ per cent coupon and 100¾ issue price, was lead managed by Crédit Suisse First Boston.

If this week's activity is part of a new strategy, bankers believe it may be a response to the opportunity of setting a new, more favourable benchmark on loan terms in the light of South Korea's economic success.

It could also be an attempt to meet the needs of business for investment capital, at present under strict government controls to prevent an increase in the money supply.

The move may also provide a breathing space for the Government in the financial arena, where it is under strong pressure to introduce speedy liberalisation measures.

Antilles tax decision has limited impact

By Stephen Fidler, Euromarkets Correspondent

CONFUSION in the Eurobond market abated yesterday as the impact of the decision by the UK tax authorities to end the current double taxation treaty with the Netherlands Antilles was recognised to be more limited than first thought.

Estimates on Monday suggested that more than two dozen Eurobonds, issued by British companies since July 1984, would have been affected by the decision.

This would have meant the companies would either have to pay a 25 per cent tax on remittances of interest to their Antilles subsidiaries, or have called the bonds for early redemption.

However, some of these issues were routed through Dutch subsidiaries, which would not be affected by the move because there still exists a double taxation treaty between the Netherlands and the Antilles.

Partly because of this, it is now clear, however, that the original estimates were too high. It is estimated that a maximum of five issues would be affected, and the total could be as low as two or three.

Simon Holberton and Stephen Fidler on a bond sales drive in Paris

French seek wider OATs appeal

FRENCH GOVERNMENT officials take a slightly different attitude to the marketing of government bonds than do most of their colleagues in Europe.

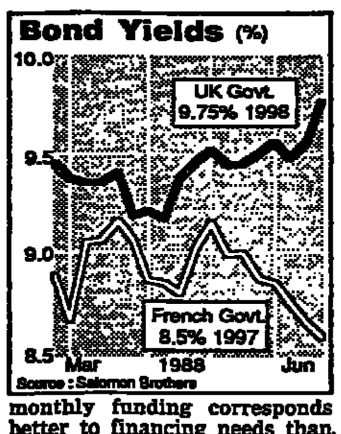
Earlier this month, some of the most senior Treasury officials sat in the rococo splendour of the Salon Impérial at the Intercontinental Hotel in Paris to extol the virtues of French government bonds in general and Obligations Assimilables du Trésor, or OATs, in particular.

This was no mere roadshow of the type to which institutional investors and financial journalists are often subjected. This was a "son et lumière" spectacle complete with large video screens on to which were projected descriptions of the French bond market and interviews with investors from Tokyo to New York on the virtues of owning French government bonds.

The whole presentation was conducted in the manner of a television programme: an anchorman called on a group of foreign and local journalists to ask Mr Jean-Claude Trichet, the permanent secretary of the Treasury, and Mr Phillipe Jaffre, the head of the Treasury's monetary and financial section, about the market.

The French have become very serious about their bond market, reformed in 1986. The 12 Spécialistes en Valeurs du Trésor, the Paris dealers in the instruments, and the French Government are seeking international respectability for its bonds and foreign institutional investors to buy them.

The Finance Ministry believes the main benefits of the new system are threefold. It creates competition for stock through tenders and therefore achieves cheaper funding, while regular monthly funding corresponds better to financing needs than the old system. Most important, it is part of a drive to internationalise France and to create greater sophistication in financial markets and industry.



Source: Salomon Brothers

France has about FFr1,300bn ($212bn) of outstanding government debt, equivalent to about 25 per cent of GNP, which is lower than most other leading countries. This year's 1988 budget deficit of FFr1,15bn is to be financed by bond sales.

The Paris presentation represented the start of the 1988 campaign to market French securities to investors in France and overseas, following last year's campaign which included presentations in Tokyo, New York, Frankfurt and London. This year, however, the roadshow is not visiting London.

The French Government's sensitivity to market demands have been evident since OATs were designed during 1985 and 1986, after exhaustive study of bond markets and how they operate.

They were first issued last year. In an attempt to improve liquidity, all OATs issued in the same year are fungible, or interchangeable.

This has helped the 9.8 per cent OAT of 1996 and the 8.5 per cent of 1997 become among the most heavily traded securities in the systems of the international clearing agencies, Euroclear and Cedel. (The SVTs clear through Sicovam, the domestic organisation, where there is a two-day settlement period, compared with the seven days preferred in the international market.)

Liquidity has been helped by a very active Matif futures market in the instruments, and by a growing over-the-counter market in options on the bonds. Last year, there were worries that the Matif, with a reputation as a highly speculative market, was too great an influence on the underlying cash market.

But speculative ardour and volumes on the Matif have cooled this year, partly because of a market scandal, so the balance between cash and futures market trading is now better drawn.

The lack of a developed repurchase market in Paris is still a factor inhibiting liquidity. While it is possible to go short of bonds in the cash market – sell them without owning them – it is expensive, although measures to lower the cost of doing in are scheduled to be introduced in September.

Nevertheless, liquidity is probably higher than in any government bond market worldwide, save for the most active on-the-run issues in the US market. Dealers report, for example, that one foreign investor selling FFr1bn of a less active French issue about 10 days ago asked prices from five SVTs in Paris and executed his sale without having a significant effect on the market.

Most dealers in Paris and London estimate that 20 to 30 per cent of trading in the bonds takes place outside Paris, the bulk of it in London. Dealing costs are still higher in Paris, and while this means most foreign investors will deal through the London market, there is no evidence to suggest that London's share of the market has grown recently.

The claim that, with only a couple of years' experience, Parisian dealers lack the expertise of their counterparts in London or New York is regarded in Paris as little more than an Anglo-Saxon slur.

One trader with experience in both markets suggests that the two are different. The French market maker is more technical, more inclined to make money through arbitrage and rather less likely than his London counterpart to take big positions.

In its drive for international acceptance of its bonds, the French Government has been helped by a number of external factors. Falling inflation and the consequent hope that interest rates would be able to fall in France, even as they were rising elsewhere, are part of the picture. Reimposition of withholding tax in West Germany has increased the relative attraction of the French market.

British institutions, faced with a shrinking domestic government bond market and pessimism about the UK inflation and trade picture, also seem lately to have become convinced of the virtues of the French market and have been significant buyers. Perhaps, that is why it was not felt necessary to take the roadshow through London this year.

Crédit Suisse to quote grey market prices

BY OUR EUROMARKETS STAFF

CREDIT SUISSE said yesterday it would start quoting grey market prices on Swiss franc foreign bonds from July 11, in a move expected to boost the liquidity and transparency of pre-market trading.

Grey market trading – dealing in bonds before their official subscription period expires – is illegal in the canton of Zurich.

Until now, only a handful of smaller, foreign banks have quoted grey market prices in publicly offered Swiss franc issues, usually from Geneva-based operations. Crédit Suisse will be the first leading Swiss bank to participate in the grey market, using an established office in Zug.

Although the Crédit Suisse decision is seen as something akin to an official sanction for the market, expectations that the other two leading national banks – Union Bank of Switzerland and Swiss Bank Corporation – will shortly follow appeared premature yesterday.

A UBS official said the bank, which is involved directly or indirectly with the majority of issues in the Swiss franc market, would wait to assess the success of Crédit Suisse's grey market entry before committing itself.

"Our involvement with so many of the new issues makes the question of our participation in the grey market highly sensitive. Although a reasonable level of volatility makes pre-market trading viable in London, it is still not clear whether this is the case in Switzerland," he said.

Crédit Suisse has said it would only quote prices for issues in which it was not directly involved and only with the permission of the lead manager in question.

Most of the smaller foreign banks already operating in the grey market quote prices for all issues. J.P. Morgan Securities (Switzerland), which also starts up grey market trade from Geneva early next month, intends to quote for all fixed-rate bonds. Equity-linked issues may be included at a later stage.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 28

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	94½	95½	-0⅛	0	9.24
[illegible]						

Average price change... On day -0⅛ on week +0¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

Average price change... On day +0¼ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

Average price change... On day +0 on week +0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	101	101¼	0	-0⅛	5.08
[illegible]						

Average price change... On day +0 on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]						

Average price change... On day +0.10 on week -0.18

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Crash cuts Smith New Court profits to £7.6m

BY CLIVE WOLMAN

Smith New Court, the only large securities group which is independently listed, yesterday demonstrated that it had weathered the October stock market crash and its aftermath with less pain than most of its competitors.

Its pre-tax profits for the year to April 22 1988 fell to £7.6m, compared with £9.3m in the year to April 24 1987. Following the announcement, the share price yesterday fell 7p to close at 178p.

The pre-tax profit figure was reached after deducting £8.5m for losses suffered through the company's underwriting of the British Petroleum privatisation issue during the period of the crash. Other crash-related deductions were £4.3m traded option losses which led to the dismissal of two dealers and £3m for client defaults caused mainly by the inability of one large private client to settle loss-making bargains. In addition £2m of provisions have been made to cover possible losses arising from the clearing of the settlements backlog.

The stock market crash occurred in the last week of the first half of Smith's financial year. If its losses are re-allocated, Smith made a pre-tax profit of £20m minus exceptional losses of £14.8m in the first half-year and £2.4m pre-tax profit in the second half.

The figures show that, despite its high fixed costs, the firm has been able to remain profitable on its mainstream business despite the depressed volume of stock market turnover, in the UK and overseas, since November. Its share of UK equity trading may have risen slightly since October to more than 15 per cent.

Profitability, however, particularly in the first half, was boosted substantially as a result of the interest earned from stock borrowing and its early delivery against cash. The privilege of borrowing stock – which is limited to market-makers – is particularly valuable when a settlements backlog is continually delaying stock delivery. The use of stock borrowing may have boosted profits by as much as £10m pre-tax during the year.

Since the crash, the company has made no significant redundancies in its UK operations although 50 jobs have been lost in New York through rationalisation as a result of its acquisition of Carl Marks, a broking firm. Mr Michael Marks, chief executive, said yesterday that the firm had always been committed to maintaining its staff numbers even during an industry recession.

Its staff has grown from 300 three years ago to nearly 1,200 today as a result of acquisitions and rapid expansion overseas and in UK equity research and broking. The firm now has 50 analysts and support staff in London covering UK and international stocks. Smith has built up considerable pulling power as a recruiter over the last two years,

Tony Lewis, chairman of Smith New Court

partly because its pay is so high. In 1987 it is estimated that the average remuneration was £54,000 per person on staff.

The company's tax charge in 1987-88 rose to £3.02m against a previous £2.76m as a result of non-deductible property refurbishment. Fully diluted earnings per share of 9.1p compares with 18.4p in 1986-87 and produces a net asset value of 156p. A final dividend of 5.5p per share has been proposed, maintaining last year's total dividend of 8p.

See Lex

Divestment programme continues at RTZ

By Clare Pearson

RTZ Corporation has sold its Thomas W Ward (Roadstone) subsidiary to RMC Group for £33.1m cash.

The shedding of its quarrying and road surfacing business means RTZ's drive to sell off all interests outside its core industrial and mining activities is virtually complete.

It has raised around £650m since the start of the year from disposals, although it has also spent about £260m on the purchase of MK Electric in January.

The most important disposals were the £230m sale of Castle Cement to a Scandinavian partnership in March, and the £308m sale of its oil and gas interests to Elf Aquitaine, the French conglomerate, the following month. Earlier this month, it sold Everest, its double-glazing company, for about £80m.

RMC, aggregrate and ready mixed concrete company, said it saw the purchase of Ward as a means of expanding the geographical reach of its quarrying and coated roadstone activities as well as increasing its architectural stone capacity.

Ward made a profit of £1.59m, before a £0.27m exceptional item and tax, in the year to last December. The book value of its assets, which are being revalued, is about £10m.

Mr Derek Jenkins, RMC finance director, said Ward would increase RMC's annual capacity for producing limestone and granite by about 2.5m tonnes and of coated stone by approximately 600,000 tonnes.

RTZ has not indicated to what purpose it intends to use the cash proceeds of its rapid divestment programme. At the company's annual meeting earlier this month, Sir Alistair Frame, chairman, said he did not believe in "hasty acquisitions."

S & W Berisford improves 10% to £47.12m in first half

BY CLARE PEARSON

S.& W. Berisford, the diversified group which owns British Sugar, yesterday reported a 10 per cent increase to £47.12m in pre-tax profits in the six months to the end of March.

Mr Philip Aaronberg, chief financial officer, said the company was striving to find the right mix of its five disparate divisions to produce a more consistent, and better, profit performance.

Aside from the dominant food division, which made up about 64 per cent of the pre-tax figure, Berisford has interests in financial services, property, commodities trading and first stage industrial processing.

The financial services division, which incorporates leasing, development capital and insurance as well as securities, turned in £0.9m (£7.3m) at the pre-tax level.

Mr Aaronberg said almost all the downturn reflected the reduction of Berisford's shareholding in Cresvale, the convertibles market-maker. This substantiated Berisford's claim at the time of the bid from Associated British Foods last November that the division had not been materially affected by the stock market crash, he said.

Though ABF gained Monopolies and Mergers Commission clearance to bid for Berisford it decided not to proceed, with dominant shareholder George Weston Holdings citing uncertainty about the effects of the decline in world markets on Berisford's non-sugar interests as the reason for withdrawal.

British Sugar, the UK's largest sugar refiner, accounted for virtually all of the food division's £30.4m (£27.3m) contribution. But Berisford said it was aiming for a third of the division's profits to come from non-sugar interests by the middle of the next decade.

Commodities, which mainly comprises trading for physical delivery in cocoa, coffee and sugar, provided £7.3m (£4.7m). The company commended itself on this performance in difficult market conditions. Further rationalisation of non-core activities took place and metals returned a profit of £0.7m after an £8.3m loss in the last full financial year.

The property division gave £5.3m (£3.8m), which included the profit on realisation of the Towergate development in London. But mortgage financing produced a lower return, and investments a small loss, reflecting the excess of carrying costs over rental income.

Berisford said the division was diversifying its activities to produce more consistent returns.

Industrial activities achieved a profit of £3.3m against a small loss last time as rationalisations reached an advanced stage.

Group turnover, restated to exclude commission income and proceeds from dealing transactions, was £1.49bn (£1.39bn).

An £11.11m extraordinary item included £2m worth of bid defence costs, with the balance being reorganisation costs.

The taxation charge increased to 32.6 per cent (against last year's 24.2 per cent) but Berisford does not expect the rate for the year to reach this level.

The higher rate is reflected in a fall in earnings per share to 15.68p (16.25p). But the interim dividend is increased to 4.5p (4p).

See Lex

Belgian acquisition for Cadbury

By Lisa Wood

Cadbury Schweppes, confectionery and soft drinks company, is acquiring Schweppes Genval (Benelux) and Genval Springs, a Belgian soft drinks company, for an undisclosed sum.

The Genval plant near Brussels bottles Schweppes products and Genval has the rights to the Schweppes brand in Belgium and Luxembourg, together with joint rights in Holland. Current turnover is £10m.

The value of the net tangible assets being acquired will be approximately £5m at June 30 1988 when the deal should be completed.

The acquisition is in line with Cadbury's strategy of owning production facilities on the Continent and also brings back to Cadbury the rights to its brands in Luxembourg and Belgium.

Cadbury has been the object of bid speculation for some months. General Cinema, the US cinema and soft drinks bottler, has an 18.4 per cent stake.

Crest Nicholson up to £14.04m

BY CLARE PEARSON

Interim pre-tax profits of Crest Nicholson, building and property development group, were sharply higher at £14.04m on turnover rising from £80.18m to £115.51m.

Mr David Donne, chairman, said seasonal factors and the timing of contract completions had boosted the company's performance during the six months to end-April. The results were also helped by the benefits of a £40m rights issue at the end of the comparable period last year.

The interim dividend is being raised by 25 per cent to 2.5p. Fully diluted earnings per share moved from 4.52p to 10p.

The company expects by the autumn to hear whether it has planning permission to develop its 600 acre-stake in a 1500 acre site outside Swindon, called the Haydon sector.

In the interim figures, residential housing provided the biggest increase. This division has expanded outside the south-east commuter belt into East Anglia, the West Country and the Midlands.

The mild weather helped the construction division, which also began to reap the benefits of integration. It was previously part of CH Pearce, bought at the end of 1986.

There was a £735,000 extraordinary item for the disposal of subsidiary companies and borrowings were substantially reduced by last year's rights issue to around £10m at the period-end.

● comment

Crest Nicholson's admirable results could hardly have come at a less propitious time – what with base rates going up to 9½ per cent yesterday – which was presumably why the shares closed unchanged at 229p. A rising interest rate environment can only add to the drift in the house building sector, and Crest Nicholson in particular is disadvantaged as it is already more highly rated than most. However, there is a strong school of thought that it deserves on fundamentals a yet better rating. Permission to develop its share of the Swindon site, which one analyst calculates could be on-sold to another member of the development consortium for about £50m, would positively transform its long-term prospects. However, caution suggests the shares, on a prospective multiple for the year of about 8 if it makes £35m pre-tax, should not be chased.

Munton expands into swimwear

BY DAVID WALLER

Munton Brothers is to double its size with the acquisition of a swimwear manufacturer for a maximum of £5.65m. This is the company's first substantial diversification from its roots as a shirt-maker since it was rescued from receivership in March last year.

Munton, whose shares had the misfortune to have performed worse than any others in London last year with a fall of 96 per cent, is buying Neal and Cooper and Cascadewear, respectively manufacturers and distributors of swimwear, leisurewear and knitted fabrics.

The initial consideration of £5.25m is to be satisfied in cash and by the allotment of new shares to the vendors. The £1.73m cash element will be raised through an open offer to existing shareholders on the basis of one new share for every 1.854 shares already held, at 45p apiece.

In total, the company's equity will expand by 55 per cent and net assets will double to £8.2m. The new group ought to be capitalised at around £10m.

A further cash consideration of £400,000 is payable in two tranches, the second of which is conditional on the companies making aggregrate pre-tax profits of more than £1.5m in the two years to September 30 1989.

Last year, the two companies generated pre-tax profits of £666,000 (after £150,000 in non-recurring remuneration for the vendors) on turnover of £4.58m. Yesterday, Munton itself reported sharply reduced pre-tax losses of £165,000 (against £373,000) for the six months to the end of March. Turnover edged up from £5.9m to £6.3m.

The results included an extraordinary loss of £441,000 on the disposal of Platform, making total losses of £606,000. The company is not paying a dividend.

Munton's chairman, Mr Richard Beamiss said that the rationalisation programme – initiated when the company was bailed out by Renaissance Holdings last year – continued apace.

Munton's shares added 5p to 50p yesterday.

Australian side helps A Cohen to £3.3m

AIDED BY an "outstanding performance" from its wholly-owned Australian subsidiary, Nonferral, and by greatly increased profits from related companies in the UK, A Cohen, maker of non-ferrous metal ingots, lifted pre-tax profits 25 per cent to £3.3m in 1987.

Turnover rose 17 per cent from £49.2m to £57.74m.

The dividend payment is stepped up to 14.52p (12.1p) with a proposed final of 10.42p (8.4p). Earnings per 20p share improved from 66.1p to 91.2p after tax

The directors said it was difficult and potentially misleading to forecast the full year results at a time when commodity markets and exchange rates were so volatile. However, the current year had started well and should lead to a good first half result.

Yearlings at $10\frac{5}{16}$%

The interest rate for this week's issue of local authority bonds is $10\frac{5}{16}$ per cent, up $1\frac{1}{16}$ of a percentage point from two week's ago, and compares with 9½ per cent a year ago. The bonds are issued at par and are redeemable on July 5 1989.

Irish Distillers spurns £173m offer

BY LISA WOOD

Irish Distillers yesterday rejected as derisory the formal I£200m (£173m) offer made for it by Cantrell & Cochrane and Gilbeys, the Irish off-shoots of Allied Lyons and Grand Metropolitan. The offer is 315p cash per share.

Mr Joe McCabe, chairman of Irish Distillers said: "In due course, we will produce a robust response to this attempt to break up the Irish whiskey industry and buy Irish Distillers at a totally unrealistic price."

York Water offer

York Waterworks Company, statutory water authority, is seeking to raise a minimum of £3m via a tender offer of 3¼ per cent redeemable preference stock. The issue is being handled by Deloitte, Haskins and Sells, the accountancy firm.

Telecommunications lift for Racal

Racal Electronics yesterday announced a 38 per cent increase in pre-tax profits to £138m for the year to March 31 despite the fact that five of the group's seven divisions showed declines in operating profits, writes Philip Coggan.

The profits increase was effectively attributable to the telecommunications division, which Racal plans to float on the stock market as a separate company in October this year.

The division, which largely consists of the Vodafone cellular telephone business, nearly quintupled its operating profits from £10.17m to £50.29m despite absorbing start-up costs of over £4m in the the new business areas of paging and private mobile radio. Turnover in the division more than doubled from £68.7m to £140.4m.

Sir Ernest Harrison, chairman, said that the number of Vodafone subscribers had doubled from 79,000 to 158,000 during the year and he estimated that a further 100,000 net new subscribers would be recruited this year.

The only other division to record an improvement was the marine and energy division which recovered from a loss of £4.96m in 1986-87 to a profit of £4.25m last year. The improvement followed significant restructuring and cost reductions; the division also benefited from a pick-up in exploration activity as the oil price recovered from its weakness in 1986.

A third boost to Racal's pre-tax profits came from a pension holiday which resulted in an exceptional credit of £12.26m. However, redundancy and other costs chipped over £8m of this figure and the net exceptional credit was £4.02m.

Of the five divisions which experienced profit declines, the sharpest drop was in the data communications sector where operating profits fell from £44.08m to £31.35m. The fall in the US dollar knocked £3.5m off the division's profits and the Vadic subsidiary, which sells modems, suffered because of the stock market crash.

The security division was also affected by the US dollar's weakness, which cut its profits by £1.2m. The Canadian business faced severe pressure on margins and profits were also down in Australia and Indonesia. Overall, the division's profits fell from £31.25m to £30.47m but Sir Ernest was confident of an improvement in both profits and sales this year.

There were also profit declines in defence radar and avionics (from £22.9m to £18.76m); radio communications (from £6.7m to £6.25m); and specialised businesses (from £18.67m to £16.03m).

Group turnover was up 6 per cent to £1.37bn (£1.29bn). After tax of £48.48m (£35.77m), earnings per share were 25 per cent higher at 14.1p (11.3p). The final dividend is a recommended 3.87p, making a total of 4.455p (3.3p).

Sir Ernest said that the debt/equity ratio at the end of the year was 58.6 per cent. The ratio was less favourable than planned because of the effect of exchange rate movements and because of the high proportion of sales in the last quarter which had not generated cash by the end of the year.

See Lex

Hugo Dixon examines the strategy behind the Vodafone float

Cashing in on a treasured possession

A PANDORA'S Box of possibilities for the future of Vodafone, the mobile telephone business, has been thrown open by the decision of its parent, Racal, to float off up to 25 per cent of its telecommunications subsidiary on the stock market.

And while most of the increasingly heated debate over the issue has concentrated on its financial logic, there could also be important industrial ramifications.

Shareholders in Racal are being offered two possible schemes. The first is the management plan, unveiled yesterday, to sell up to 25 per cent of the shares in the Racal Telecommunications Group subsidiary (largely Vodafone) through an offer of shares in both London and New York.

However, the plan has stirred up disquiet among Racal's institutional investors. A rival plan, which has been canvassed by one of the largest shareholders in the company, is for a full demerger between the two companies.

Meanwhile, the fact that Cable & Wireless, the telecommunications group, recently took a stake in Racal has prompted market speculation about a third possibility - a merger between Vodafone and Mercury Communications, the C & W subsidiary which is British Telecom's only UK competitor for providing mainstream telecommunications.

The Racal management yesterday sought mainly to justify its plan on the ground that selling off 25 per cent of Vodafone was the most effective way of raising capital. Critics, however, suggest the move also has a defensive motive, to deter predators.

None of this extra capital will be devoted to the expansion of Vodafone, which requires continuing investment of about £60m a year. Instead, it will be used primarily to expand Racal's data communications and security businesses.

Racal could, of course, also raise capital under the two alternative routes. At the same time, as demerging the companies, Racal could launch a rights issue, while selling Vodafone to Cable & Wireless would also raise substantial funds.

However, Sir Ernest Harrison, Racal's chairman, said yesterday that selling off 25 per cent would be "tax efficient" and that the share price would have fallen if the company had announced a rights issue.

Racal argues further that it needs to retain control of Vodafone because of the synergy between the two sides of the group. "I don't want to be totally demerged," said Mr Gerry Whent, chief executive of RTG. "We would abdicate a relationship which we treasure."

Vodafone, he argued, benefitted from its parent's research and development. Mobile telecommunications were a natural spin-off from the parent's work in defence communications. However, some analysts argue that Vodafone is increasingly a marketing business and there is less synergy between the two businesses than before.

By obtaining a separate quotation, Vodafone would be better able to take advantage of the move towards pan-European mobile telecommunications. The company has already taken a 4 per cent stake in Cofira, which has a licence to run one of the two French mobile networks.

Mr Whent said yesterday he would like to take stakes in five

Sir Ernest Harrison: sell off would be tax efficient

or six of the other major European mobile networks. Having a separate quotation and the higher rating that went with it, would allow him to swap a relatively small proportion of Vodafone's equity for larger stakes in other companies abroad - where the mobile telephones market is not as advanced as in the UK.

It would also give Vodafone a significant advantage over Cellnet, its UK rival, which is owned 60 per cent by British Telecom and 40 per cent by Securicor. BT has told Cellnet that it must confine its activities to the UK. Any pan-European deals will be done by BT direct.

The second possibility – a total demerger – is being proposed by Millicom, the US mobile communications group which owns 5 per cent of Racal. The desire not to put up extra cash is in the forefront of Millicom's mind.

A separate Vodafone, Millicom argues, would flourish by being free to run its own business without interference from a parent.

Mr Whent, however, maintains that the management's proposal would also achieve this objective and that there is no question of interference by Racal. "The relationship between Ernest Harrison and myself is a major contribution to the success of RTG," he said.

As for the third possibility - of merging Vodafone and Mercury - C & W will not be drawn on the subject beyond saying that its 2.8 per cent stake in Racal is a "strategic investment". Revealing the stake, Sir Eric Sharp, C and W's chairman, said there were "synergies" between the two businesses.

The argument for a merger is that Vodafone has to use either BT or Mercury to connect its mobile base stations. Would it not be simpler to have one large network combining mobile and fixed links - in the same way that BT and Cellnet are combined - rather than the present fragmented arrangement?

Racal's answer is adamantly "no". Sir Ernest says that "we have the right by law to connect to both hard-wire line services" (in other words, into both the BT and Mercury normal telecommunications networks). At present, he adds, Vodafone benefits from being able to play one network off against the other.

A merger would also have implications for competition policy. As mobile communications expand, they will be an increasingly important competitor to the mainstream operators. However, a merger would take away this extra competitive influence, giving BT and Mercury control over the mobile sector.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Ashley Ind Trust, Hardys & Hansons, Shoreplan.

Finals- Aberdeen Steak, Bischi Tin, Buckley's Brewery, James Crosby, Geevor Tin Mines, General Electric, Gresham House, Nesco Invests, Staks Holdings, Thorn EMI.

FUTURE DATES

Interims-	
Hambros Currency Fund	Aug 10
Hambro Euro & Mon Mkt Fnd	July 8
Johnson Fry	July 5
Pericom	July 1
Finals-	
American Business Syst.	July 4
Assoc Brit Engineering	July 4
Birmingham Mint	July 6
Ferranti	July 14
New Ireland Holdings	July 4
Toothill (RW)	July 6
Total Systems	July 5

NatWest buys in France

BY DAVID LASCELLES, BANKING EDITOR

National Westminster Bank has bought five bank branches in France from Banque de l'Union Européene with assets totalling £180m. The price is not being disclosed.

The branches are in Lille, Lyon, Nantes, Strasbourg and Toulouse, and will bring NatWest's French branch network to 12. NatWest was already represented in Lyon and Nantes.

The bank said that the acquisition had been made because it represented an opportunity to expand in France. But it did not necessarily indicate a blueprint for NatWest's expansion in Europe in connection with the single EC market planned for 1992.

NatWest is creating a limited company in France, National Westminster Bank SA into which its branches will be grouped.

BAT answers takeover criticism

BY NICK BUNKER

BAT Industries, tobacco-based multinational, attempted during regulatory hearings in Ohio yesterday to head off criticism by its bid target Farmers Group by laying heavy stress on its ability to fund its planned $4.5bn (£2.5bn) takeover of the US insurer.

The British conglomerate also tried to forestall local objections to the bid by stressing its commitment to continue doing business in Ohio, where it employs 1,000 people in its retailing and paper operations.

During the early stages of the bid, launched in January, members of the Ohio state legislature voiced opposition to BAT's plans because they feared jobs could be lost in Farmers' Ohio operations.

Ohio is one of nine states where BAT has to win approval from local insurance regulators before taking over Farmers. The Los Angeles-based insurer has put up stiff resistance to BAT during previous regulatory hearings.

Mr Leonard Arentsen, an executive vice president of BATUS, BAT's US subsidiary, said at the hearing that BATUS alone had $1.2bn in short-term investments and net income of $466m. About $1.25bn of the purchase price would be funded from BATUS's short-term investments and internal cash flow, he added.

He said the acquisition of Farmers would be financed partly via a collateral free $3.2bn loan from 31 international banks, but the financing plan would leave Farmers with an inter-company debt to BATUS of $1.6bn.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Alexander (Walt) ...fin	3.2	Aug 31	2.75	5	4.25
Berisford (S&W) ....int	4.5	Oct 7	4	-	14
Bridgend Group ....fin	0.2	Aug 12	nil	0.4	0.2
Cohen (A) ....fin	10.42	Aug 30	8.4	14.52	12.1
Crest Nicholson ......int	2.5	Oct 3	2	-	5.7
Delmar § ....fin	2.34	-	2.15	2.34	2.15
Gardiner Group ....int	0.25	Oct 10	-	-	-
Halma ....fin	1.01	-	0.84*	1.64	1.36*
Irish Wire Prod .....fin	1♣	Sept 16	-	1	-
Lees (John J) ....fin	1.25	Aug 27	1*	1.88	1.5*
Lister & Co. ....fin	3	Oct 3	2.5	4	3
Lowe (Robert) ....int	1.25	Sept 2	1	-	2.8
Millward Brown §..fin	2.05	-	1.75	3.3	3
Northumbrian § ....fin	1.25	-	0.56	1.25	0.56
Oakwood Group ....int	1†	-	nil	-	1
Racal Elect. ....fin	3.37	Aug 17	2.5	4.46	3.3
Scott's Rest. ....fin	3.3	-	3.3	3.3	3.3
Smith New Court ..fin	5.5	Sept 24	6	8	8
Southend Propty ...fin	0.2	-	0.15*	0.5‡	0.15*

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ‡For fifteen months. ♣ Irish currency

UK COMPANY NEWS

Halma reaches £9m after 'top bracket' performance

BY FIONA THOMPSON

Halma, the safety, security and environmental control group, yesterday reported pre-tax profits 41 per cent ahead at £9.06m for the year to April 2 1988. The advance from £6.46m was made on turnover up 38 per cent to £50.82m (£36.86m).

Mr David Barber, chairman and managing director, who, joined Halma in 1972 when it was a shell company, said that sometimes it was appropriate to cast modesty aside and point out that many of the figures accepted as commonplace for Halma were "well beyond those which are achieved, or even aspired to, by many other companies."

Earnings per share rose 31 per cent from 7.2p to 9.46p, net profit margins on sales increased to 18 per cent and overall return on capital employed advanced to 45 per cent.

"This puts us right in the top bracket of performers," said Mr Barber. "We are different because of how we have achieved this growth. Others do it by issuing shares, we have done it without issuing shares."

Halma has five divisions. Safety devices accounts for about 20 per cent of sales and profits, environmental control for 20 per cent, security (40 per cent), machinery and services (15 per cent), and the US side with the final 5 per cent.

Halma's product range includes Apollo fire and smoke detectors; anti-theft devices such as the Volumatic counterfoil control systems used by retailers such as Boots and Marks and Spencer; Castell key interlock equipment, which controls access to areas with potentially dangerous equipment such as nuclear sites, oil rigs and refineries; Wilkinson & Simpson soil testing kits; and Kerry Ultrasonics cleaning equipment used by the electronics industry, for example, for cleaning circuit boards.

Tax took £3.24m (£2.28m). A final dividend of 1.01p was recommended, making a total for the year of 1.64p (1.3p).

● comment

David Barber is proud of his company's accomplishments, and rightly so. Since 1972 earnings per share have grown at a compound rate of 28 per cent, pre-tax profits at 30 per cent. Anyone buying £10,000 worth of shares in 1974/75/76 and selling at any time last year or this would, at worst, have seen a £500,000 return, at best £2.5m. Barber's formula is to be highly acquisitive. He looks for niche companies which can be bought on attractive terms because there is some element - adequate finance, good marketing skills - lacking. The businesses must have good margins and be cash generative, the latter used to continue the purchases. The policy is clearly a successful one and analysts are looking this year for pre-tax profits of just under £12m, putting the shares, unchanged last night at 155p, on a prospective p/e of about 12.5, at a premium to the mechanical engineering sector but well deserved.

Acquisitions seal Warringtons' move into property

BY VANESSA HOULDER

Warringtons yesterday set the seal on its transformation from a loss-making building contractor into a property developer with the announcement of a series of acquisitions that will almost triple its size. Warringtons also announced its results for 1987, which saw losses increase to £1.55m from £486,000 previously.

In the largest of four acquisitions, Warringtons is buying the property activities of Alfred McAlpine, the construction, minerals and homes group, for £17m in shares, which will, after a placing, include £4.2m in cash.

The deal will make Alfred McAlpine a 45 per cent shareholder in Warringtons. This will allow McAlpine to expand its property activities and permit schemes that would not previously have been financially possible, said Mr Bobby McAlpine, chairman. It would also enable McAlpine to continue to expand its main business activities by investment and acquisition.

Warringtons is also buying Connaught Commercial Developments, a north-west and Midlands-based property developer, for £1.5m in shares. In addition it is buying a one third interest in Ryhall, which owns part of an office development in Gibraltar, for £1m in shares and cash. In another deal, it is buying office and retail space in Aylesbury for £1.9m in shares and cash.

Mr Graeme Jackson, who joined Warringtons as chairman in February 1987, said the acquisitions were a major step that completed the company's transformation out of contracting. "I now see three years of organic growth before we contemplate any further acquisitions," he said. In particular, Warringtons would focus development on the 122 acres of the Chester Business Park it has bought from McAlpine.

Mr McAlpine will become deputy chairman of Warringtons and Mr Christopher Edwards, McAlpine's finance director, Mr Elwyn Nicol, managing director of Connaught and Mr Raymond Dunn, Connaught chairman, will join Warringtons board of directors.

Losses per ordinary share at Warringtons were 36.1p (16.57p loss) in the period under review. No dividend has been declared.

Operating losses on contracting work were compounded by the cost of overheads while the company ran down its contracting business. Mr Jackson said the last of the building contracts would be completed in September.

Following the acquisitions, net tangible assets of Warringtons will be about £24m and gearing will be about 30 per cent.

An extraordinary general meeting to approve the deal will be held on July 21. Subject to this approval, the Takeover Panel has waived the obligation on McAlpine to bid for Warringtons. Dealings in Warringtons' shares, now suspended, are expected to resume on July 28.

Interior designer set for market

BY PHILIP COGGAN

AFTER MORE than fifty years of furnishing the drawing rooms of country houses, Colefax and Fowler, the interior design company, is joining the main market via a placing which values the group at £15.6m.

Now the group is just as likely to be doing design work on flats in the Docklands as on mansions in Rutland. The group has worked at such exclusive venues as the Gallery at Chequers and the Queen's Audience Room at Buckingham Palace.

But Colefax and Fowler sees its main growth potential in the promotion of its fabric and wallpaper designs, which account for around 60 per cent of turnover. The wallpaper, curtain and furnishing collections are marketed through more than 1,500 trade accounts in the UK – including interior decorating shops, design consultants and stores – and through the company's three retail outlets.

Pre-tax profits have grown from £376,000 in the year to April 30 1984 to £1.48m last year, while turnover has risen from £4.66m to £11.98m over the same period.

Phillips & Drew is placing 3.7m shares, 30 per cent of the equity, at 125p each, putting the shares on a historic p/e of 13 at the placing price. The notional gross dividend yield is 3 per cent.

Administration costs slow Millward Brown

Higher administration costs at Millward Brown, USM quoted market research agency, restricted profit growth to 14 per cent in the year ended March 31.

Turnover advanced 38 per cent to £14.67m and gross profit rose 36 per cent to £6.77m. But administration charges up 43 per cent at £5.29m left the pre-tax balance at £1.41m (£1.24m).

Earnings declined to 12.3p (12.5p). The dividend is lifted to 3.3p (3p) with a final of 2.05p.

In the current year the company started well in the UK, both in tracking studies and in ad hoc business; prospects for the US tracking service continued to improve.

It was intended to further expand the European operations in the coming year.

Reorganisation benefits showing at Stormgard

FOLLOWING A major review of the group's operations, Stormgard reports markedly reduced losses for the year to March 31 1988.

The loss came to £1.5m, compared with the previous £4.67m which included £3m exceptional charges.

Reorganisation of this women's fashion and knitwear group has involved the building up of a new division: printing, stationery and related items – a sector where margins are better and less seasonal than textiles.

The programme has also involved the disposal of the least profitable elements of its textiles operations, thereby reducing group borrowings at the year end to £3.71m from £9.68m. Stocks have also been reduced by £6m to £4.5m.

Group turnover was down to £24.17m (£45.85m). Losses per share worked through at 1.13p (3.52p), before £688,000 extraordinary credits (£78,000 debits).

The home furnishings and knitwear sector, where Glenmuir sportswear has record sales and order books, turned last year's losses of £99,000 to profits of £316,000. At E & A Richards, home demand for lace is steady and a sizeable US order has been won.

Losses in the garments and accessories division, where the disposals have been made, were cut to £909,000 (£1.89m).

The recent printing and stationery acquisitions contributed £28,000 profit to the group's results in the last three months of the year and are matching expectations.

UK COMPANY NEWS

Lister short of City expectations

BY VANESSA HOULDER

Lister, Bradford-based textiles group, yesterday reported a 4 per cent decline in profits for the 12 months to March 26 - a year in which it has suffered a downturn in its hand knitting yarn business and intense competition from imports of acrylic yarn.

The group disclosed pre-tax profits of £3.11m (£3.5m) on turnover of £49.22m (£0.83m). The results were below City expectations and the shares dropped 6p to 120p.

In the past year, the group has withdrawn from the hand knitting yarn market, after more than half a century in the industry. The decision followed a 40 per cent downturn in demand for hand knitting yarns, which stemmed from a general change in fashion away from handknits towards a more stylised look.

It has also recently stopped production of acrylic yarn at the Bingley Mill, one of its two spinning mills, which was bought last April at a cost of about £1m.

The group has suffered from the industry wide decline in demand, following a change in fashion. This has been compounded by the strength of sterling and a surge of cheap subsidised acrylic yarn imports. Last year about 4,500 tonnes of yarn arrived in the UK from Turkey, representing almost a tenth of the market.

Lister also manufactures velvet, curtains, cushions, rugs, fur, silk and woollen fabrics and has interests in property investment, engineering and insurance broking. Mr Justin Kornberg, chairman, said that these divisions fulfilled and in the majority of cases, exceeded profit forecasts.

Ridding the company of the problem areas should provide a sound base for the current year, he said.

The results also featured an extraordinary credit of £8.6m, which principally stemmed from the £15.3m sale of a property in London's Oxford Street last September.

A final dividend of 3p has been recommended making a total of 4p (3p) per share for the year.

● comment

The chairman's claim that Lister is "living life like a surf rider" may seem a somewhat unlikely description of life for a struggling Bradford textile company. Yet fast footwork and agility are indeed vital for Lister if it is to cope with the rapidly changing demands of its customers and the tidal wave of Turkish imports. Lister's drastic action in pulling out of hand knitting yarns and closing down its Bingley Mill has, it hopes, dealt with much of the problem. And a shift to alternative fibres such as blended yarns may help counter the decline in demand for acrylics. But no spinning company can feel confident while cheap imports are such a potential headache. And this is reflected in a lowly multiple of 7, assuming that the company makes profits of £3.5m this year.

Walter Alexander rises 14% to £6.5m

Walter Alexander, the Scottish industrial group which came to the market last September, lifted its turnover by 31 per cent and pre-tax profit by 14 per cent in the year ended March 31 1988.

Turnover of this coachbuilding, filtration and home textiles group rose to £95.39m (£72.85m) and the profit to £6.51m (£5.72m). The restraint on the growth of the latter was the consequence of associates contribution falling to £151,000 (£593,000).

Earnings came to 15.3p (13.5p) and the final dividend is 3.2p for a total of 5p (4.25p).

Mr Ronald Alexander, chairman, said coachbuilding produced excellent results. Demand was beginning to return to the traditional markets following the dislocation on de-regulation in 1986.

Filtration achieved record figures, and there were excellent opportunities for expansion throughout the division.

In DIY distribution increased margins offset lower turnover for record profits. Home textiles, however, fell short of its targets principally because of problems in the windows and doors businesses – now closed or sold.

Severfield-Reeve coming to unlisted market via placing

BY FIONA THOMPSON

Severfield-Reeve, the Thirsk, North Yorkshire company which designs, fabricates and erects structural steelworks primarily for commercial and industrial buildings, is joining the Unlisted Securities Market.

Leeds stockbrokers Rensburg is placing 3.2m shares, representing 33.7 per cent of the enlarged equity, at 80p, to raise £2.56m. This gives the company a market capitalisation of £7.6m.

Of the 3.2m shares being placed, 2.1m are being sold by the four directors who run the business as a partnership. The 1.1m new shares placed will raise £730,000 for the company for further expansion.

Severfield-Reeve was founded in 1979 and moved to its present base at Dalton, near Thirsk, in 1980. It is now on a 28 acre site and has invested more than £1m in the last 18 months on new buildings, plant and equipment. An integrated in-line system for cutting, drilling, handling and shotblasting structural steel has been installed, as has a computer controlled flat-bar processing plant which enables the automatic manufacture of connection components to exact tolerances.

The group's customers include major builders such as Taylor Woodrow, Bovis, Tarmac, Balfour Beatty and Fairclough.

"We see a good future," said Mr John Reeve, chairman. "The steel and construction market is pretty buoyant. Our order book is full till Christmas."

Mr Reeve stressed that the group had grown during a period overlapping with a British Steel strike, a power workers' strike and a transport workers' strike.

Pre-tax profits have grown in the past five years from £76,000 to £873,000 in the year to December 1987, on sales up from £1.7m to £6.5m. At the 80p placing price, the historic p/e ratio is 11.3 times.

John J. Lees at near £0.5m

Sales advanced srongly at John J. Lees in the yer to March 31 from £4.92m to £6.55m, and enabled pre-tax rofits to rise by 17 per cent fom £415,881 to £485,396.

The director of this confectionery manufcturer said the Heather Cameon Foods subsidiary had a very successful year.

A recommened final dividend of 1.25p make 1.875p (1.5p) for the year on arnings of 6.24p (6.32p restated.

Midterm surge takes Robert Lowe to £0.75m

Robert H. Lowe, clothing manufacturer, recorded a pre-tax profit growth of 86 per cent, from £402,000 to £748,000, in the half year ended April 30 1988.

The results included the Wescot companies, where reorganisation should be completed by the end of 1988 when full improvements should show through.

Group turnover soared to £12.33m (£5.5m) despite certain sluggishness in retail sales in late spring. Profit improvement in the core garment factories was achieved but margins remained below a satisfactory level, the directors reported.

The group makes sports, leisure and children's wear for Marks & Spencer, Next and BhS, and is the principal UK maker to the Adidas brand. It also has printing and packaging operations.

Earnings for the half year were 10.37p (9.22p) and the interim dividend is lifted to 1.25p (1p).

Bridgend back in the black

Continuing operations of Bridgend Group increased profits to £445,000 in 1987, against £277,000. After taking in losses from discontinued activities almost £500,000 lower at £135,000, this electronic products concern turned in an overall pre – tax surplus of £310,000, (£356,000 loss).

Earnings were 2p (2.62p losses) and the directors recommend a final dividend of 0.2p (nil) for a doubled total of 0.4p.

Turnover was £24.94m (£31.2m).

Christie seeks full listing

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

The Christie Group, which has evolved from estate agency to business agency and financial services, is to seek a full listing for its shares next month.

Cazenove will be placing 5.8m of its shares, or 25 per cent of its equity after the placing, to raise up to £8m. The initial capitalisation of the group will be about £30m. Trading should start on July 14.

Half of the shares to be placed are being sold by the directors and the other half is an issue to raise funds for the company. After the placing the directors and their families will retain 72 per cent of the equity.

Christie claims that it is the largest specialised business agency in the country. It concentrates on the buying and selling of businesses, especially in the licensed trade, health care and retail areas as an agent for clients. It does not take a position as principal. But it also arranges finance for its clients and offers specialised technical services like valuation, stocktaking and rating advice.

The group comes to the market after a period of rapid expansion, which has seen turnover rise to £17.2m in the year to last April from £3.88m in 1983-84 and pre-tax profits climb to £3.5m from £449,000. There was, however, a loss of £49,000 in 1984-85.

In December 1987, Christie bought the right to a 54 per cent interest in VR Business Brokers, and later extended its interest to 91 per cent. This company, based in Boston, Massachusetts, franchises business brokerage offices throughout the US.

APPOINTMENTS

Chief executive designate at Norwich Union Group

Mr Allan Bridgewater has been appointed deputy chief general manager of the NORWICH UNION GROUP from October 1, while retaining his present responsibilities as general manager of the Norwich Union Fire Insurance Society until the end of this year. After the annual meeting in May 1989 he will become group chief executive, when the present chief general manager, Mr Victor Hughff, retires. Mr Albert Mills will become deputy general manager of the Norwich Union Fire Insurance Society from October 1, and will take over as general manager from the beginning of 1989.

★

CAPE DURASTEEL Wellingborough, has appointed Mr Bruce Pinner as sales and marketing director of the contracting division.

★

Mr Richard Hurst is to become an executive director of CAPITAL RADIO in October with special responsibility for business development. He is a director and company secretary of Rediffusion, and has been a non-executive director of Capital since 1985.

★

Mr Gordon I. Brown is joining the board of WILLIAM KENYON & SONS as non-executive director. He was group finance director of Magnet, and has recently formed his own consultancy business.

★

BENCHMARK GROUP has appointed Mr David W. Youngman as chief operating officer of its stockbroking subsidiary, Charlton Seal. He continues as a director of Benchmark. Mr Peter F. Barlow, Charlton Seal's director of administration and finance, will act as his deputy.

THE WELSH DEVELOPMENT AGENCY has restructured its management concerned with attracting companies into Wales, *writes Anthony Moreton, Welsh Correspondent*. Mr Michael Price is to be director of Winvest, the agency's inward-investment arm. He succeeds Mr Colin Adlam, who takes on a new role as the WDA's international director.

The changes have been made, according to Mr David Waterstone, the agency's chief executive, because "competition for inward investment projects has become more severe and we have to be prepared for even greater challenges with the approach of 1992 and the single European market."

Mr Price, a 46-year-old civil engineer, spent 10 years with ICL before joining the Development Corporation for Wales, which was subsequently absorbed into the WDA, in 1975.

Mr Adlam, 54, has also had a long spell in industry, spending 28 years with ICI, seven of them as overseas manager for the plastics division. He will continue to work closely with Winvest.

★

Mr Angus Hamilton has been appointed managing director of GROSVENOR BUCHANAN PROPERTIES, Glasgow, new Scottish subsidiary of Grosvenor Square Properties Group. He is a director of Grosvenor Square Properties Developments, and the London Pavilion.

★

ACORN COMPUTER GROUP has elected Mr Elserino Piol as chairman to succeed Mr Bruno Soggiu, who remains on the board. Mr Piol is Olivetti's executive vice-president for strategy and development. He has been a director of Acorn since March 1985.

Lowndes Lambert Group Holdings

A new company, LOWNDES LAMBERT GROUP HOLDINGS, has acquired the entire share capital of the Lowndes Lambert Group. Directors of principal group companies include: Mr Roy Watts, chairman of Thames Water Authority and Armstrong Equipment, who becomes non-executive chairman of Lowndes Lambert Group Holdings; Mr Richard Shaw, deputy chairman and chief executive of Lowndes Lambert Group Holdings, chairman and chief executive of Lowndes Lambert Group, and a director of Lowndes Lambert Overseas Holdings; Mr Peter Kininmonth, chairman of Lowndes Lambert Overseas Holdings, and deputy chairman of Lowndes Lambert Group Holdings, and of Lowndes Lambert group; and Mr Claude Minerand chairman and chief executive of La Securité Nouvelle. Joining the board of Lowndes Lambert Group are: Mr Mike Barnfield, managing director of the North American non-marine division; Mr Tony Hazell, managing director of Architects & Professional Indemnity Agencies; and Mr Alan Ledamun, director of the management and financial services division. Mr Michael Caley has been appointed deputy chairman and chief executive, and Mr Alan Main joint deputy chairman of Kininmonth Lambert, with Mr Malcolm Berry as managing director of the marine division; Mr Michael Dunn, managing director of the international division; and Mr James Kininmonth, managing director of the North American division. Mr John Ougham has been appointed chairman of Lowndes Lambert's management and financial services division, with Mr Denis Woodward as managing director. These changes follow a management buyout in April.

COMMODITIES AND AGRICULTURE

Greece blocks agreement of EC farm price package

BY TIM DICKSON IN BRUSSELS

AGREEMENT ON a package of EC farm prices for the 1988-89 marketing year remained blocked by Greece last night after a further round of negotiations between member states in Brussels ended in stalemate.

The embarrassing impasse, which comes after a final deal was thought to have been struck in Luxembourg late last week, once again raises the prospect of emergency measures being taken by the European Commission when the new marketing year for cereals and other regimes starts on July 1.

The outstanding problem – without which no other aspects of the complex package can be legally approved – centres on a difference of interpretation of a compromise on negative monetary compensatory amounts offered to Athens by the Commission and the West German Presidency late last Thursday night.

MCAs are the system of cross border taxes and subsidies designed to even out short term currency distortions of cross border farm trade, but they can only be dismantled through the devaluation of the relevant "green" currency (the notional currency used to convert common Ecu denominated prices into national money, in this case the "green" drachma).

Greece (like most other other member states in previous negotiations) wants as large an MCA dismantlement as possible since this not only has the effect of removing some of the taxes which its farm exporters have to pay but increases EC farm prices in local currency (particularly important given Greece's high inflation).

Frans Andriessen – reported to be taking a tough line

The dispute with the Commission hinges on whether it was offered respectively a 15 to 20 per cent adjustment of its green rate (as is maintained by the Athens Agriculture Minister, Mr Yannis Pottakis) or whether, as the Commission insists, the deal was a 15 to 20 point adjustment (or reduction) in MCAs, sometimes called the monetary gap. That would be achieved by a green drachma devaluation of less than 15-20 per cent.

According to the Commission the Greek version would give farmers an average 21 per cent increase in prices; the Brussels version would amount to a 14 per cent boost. A Commission official claimed yesterday that the cost of conceding the point (or more precisely, the percentage) would be around Ecu 70m (£46m).

Farm experts from the member states at yesterday's meeting mostly endorsed the Commission's version of events (negotiations on MCAs almost always centre on reducing the monetary gap).

Some, however, indicated that if the Commission was prepared to make further concessions and spell out the financial consequences they would be able to put their names to the final deal.

Mr Frans Andriessen, the EC Agriculture Commissioner, however, was reported to be taking a tough line and the Commission spokesman indicated that no new compromise was envisaged.

Observers feel that with the EC summit of heads of government now safely out of the way and the imminent start of the Greek Presidency of the Community on July 1 – a six month period in which Athens is known to be keen to play a more constructive role in EC affairs – Mr Andriessen may now try to call the Greek bluff.

Drought pushes up sugar to 6-year high

By Richard Mooney

LONDON SUGAR futures broke through the $300-a-tonne level for the first time in six years yesterday as concern about drought damage to US and Chinese crops continued to buoy-up the market.

Following on the overnight strength of the New York market, prices opened with sharp gains and the London daily price for raw sugar was fixed in the morning at $328 a tonne, up $39 from Monday's level. On the futures market the prompt August position quickly moved up to $327 a tonne. That level did not hold for long, but the $296 a tonne ruling near the close still represented a rise of $21 from Monday.

Alarm signals were sounded about the Chinese supply situation late last year when that country began to step up its buying on the world market. Since the spring, fear for the drought-affected US sugar crop has taken an increasingly big hand in the rise, and yesterday that factor was given a new twist by rumours that some big American soft drinks bottlers might be switching back to sugar from high-fructose corn syrup (HFCS) because of the drought-driven rise in maize (corn) prices.

Mr Christopher Pack, of London sugar brokers C. Czarnikow, thought it unlikely that bottlers would switch away from HFCS simply because of increased cost, which he said would be compensated to some extent by better returns from sales for animal feed of waste from the maize feedstock.

It was possible, however, that some bottlers might have become uncomfortable about their total reliance on HFCS and be considering spreading the risk by returning to the sugar market for some of their sweetener needs, Mr Pack said.

Even discounting any change of policy in the soft drinks sector the US supply demand balance for next year was likely to be bullish, Mr Pack said. Consumption was likely to increase by at least 100,000 tonnes, perhaps 200,000, while he estimated that production would fall by between 300,000 and 400,000 tonnes.

In the latest issue of its Sugar Review, Czarnikow says rising consumption and two years of poor crops have cut Chinese sugar stocks to about half the normal level. And it may take some time before the stimulus to production provided by higher domestic sugar prices taking effect this month will be translated into higher levels of domestic output. "In the short term China appears to have sufficient foreign exchange reserves to continue importing supplies, a policy which she is also following for grain - a more sensitive area politically," Czarnikow adds.

Kenneth Gooding reports on the Far Eastern jewellery industry

Low costs attract business to China

THE EXPLOSION in demand for precious metal jewellery in the Far East has caused widespread skilled labour shortages in the main production countries, Japan, Hong Kong and Thailand, and wages increases which are very large by local standards.

Japan and Hong Kong in particular are attempting to cut costs by moving some production offshore and the main beneficiary is mainland China. This will enable China to use more of its own gold production in jewellery and gain from the extra value when it is exported.

In the past six months alone, three new precious metal jewellery factories employing a total of more than 600 have been set up in China as joint ventures by Hong Kong and European companies.

The main attraction, according to Mr Morihito Nagahori, one of Japan's larger jewellery producers, is that it costs only $8,000 a month to operate a factory with 100 employees in China.

He was among a number of Far Eastern producers at an international symposium held in connection with the Vincenza Jewellery Fair in Italy.

Mr Nagahori, whose company of the same name is quoted over the counter in Tokyo, said that within three or four years Japan would consume 120 tonnes in jewellery annually or about 10 per cent of the non-communist world's mined output. Demand last year was nearly 95 tonnes, three times the 30 tonnes in 1980 and more than double the 49 tonnes achieved in 1983.

However the fragmented Japanese jewellery industry – only 15 of the 1,000 manufacturers employ more than 100 people – had not been able to take full advantage. Price competition and heavy imports (10.7 tonnes of gold jewellery last year) had cut profitability to the bone.

For example, 60 per cent of the gold jewellery was sold as 18 carat chain at a very low mark up from the precious metal value, based on the price that day.

Mr Nagahori predicted that the Japanese industry would rationalise by mergers, acquisitions and joint ventures. Many labour intensive operations would be moved offshore, leaving Japan to concentrate on products with higher added value.

The industry would work with electronics groups to introduce robotics and other forms of automation to jewellery making in the longer term.

"Only those major companies with sufficient capital to invest in the future can achieve this," Mr Nagahori pointed out. "As a result, the business concentration will move towards the larger manufacturers and wholesalers. This, however, should create real opportunities for the industry to take major initiatives in retail pricing, distribution and marketing. This will be the time for our industry to position itself not as mere fabricators but as total marketeers."

Hong Kong too is looking towards producing higher value jewellery products in order to cope with skilled labour shortages, an ever upward wage spiral and growing competition, according to Mr Kenneth Yeung, an executive director of the King Fook group which includes jewellery among its extensive interests.

"Hong Kong is in a very good position to train workers in China. In fact, we anticipate our industry will rely more and more on the labour there. While we have China taking care of the intensive labour part of the job, we in Hong Kong willconcentrate on upgrading quality and design capability."

Last year 28 tonnes of gold jewellery was consumed by Hong Kong. Hong Kong exported precious metal jewellery worth $400m, most of it to the US. Tourists also took away $250m worth.

Mr Yeung said that the jewellery industry was short of about 1,000 skilled people, or 8 per cent of the potential workforce, and wages were rising.

But as it was pointed out by Mr Nagahori earlier, Japanese labour costs are four to five times those in Hong Kong, four times those in Singapore and ten times those in Bangkok where the average wage is about $1,500 a year.

The Thai jewellery industry attempts to employ as little gold as possible in its products, concentrating on locally produced coloured gemstones. But even so Thailand consumed 15 tonnes of gold in jewellery last year, then exported seven tonnes.

The jewellery industry now achieves foreign exchange earnings second only to those from textiles in the industrial sector and probably is the largest industrial employer.

Mr Prida Tiasuwan, chairman of Pranda Jewelry in Bangkok and vice-president of the Thai Gems and Jewellery Traders Association, said the very fast expansion of the industry had led to new companies enticing trained people away from longer standing organisations by offering very big wage increases.

The Thai industry's development was also hindered by the fact that, because the authorities had wanted to limit the movement of gold bullion, the material had only recently become available and so far there were no refining facilities up to international standards.

Poor management and production techniques also caused the industry to lose as much as 15 per cent of the gold obtained for jewellery making.

Like its competitors, said Mr Tiasuwan, Thailand which currently makes low value, mass produced jewellery hoped to move into a better class of product. "The new young labour force which has been trained in the past few years will continually gain better skills and enable us to produce higher priced jewellery."

The Soviet Union has been a heavy seller of gold bullion on the Hong Kong market this week, dealers said. The metal was placed with international bullion houses at between $442 and $443 a troy ounce.

Dealers said Moscow occasionally uses the Hong Kong market but there was a marked increase in selling on Monday which continued on a smaller scale yesterday.

Mr Tom Butler, manager, precious metals, Samuel Montagu in London, suggested the move was of no particular significance, "except, perhaps, that demand for precious metals today is in the Far East so it might seem logical to sell into that market".

The Soviet sales did not drive the gold price down and it closed in Hong Kong yesterday $2 up at $444 an ounce.

Groundnut crop likely to be a record

WORLD groundnut production is likely to reach a record 15.1m tonnes, shelled basis, next season, up 13 per cent from this season's 13.39m tonnes and above last season's 14.66m, the Hamburg-based newsletter Oil World said, Reuter reports.

Good weather and attractive prices have resulted in a sharp increase in world groundnut plantings by an estimated 10 per cent to a record 18.6m hectares.

In India alone plantings are expected to rise to about 7.25m ha from the drought reduced 5.95m ha planted for this season.

Production in 20 selected African countries is expected to increase by 3 per cent from the 1987/88 season to about 2.65m tonnes, shelled basis, Oil World said.

US groundnut yields are likely to reach only 1.9 tonnes/ha shelled due to the drought, which would be 11 per cent below the most recent five-year average, it said. The US crop could reach 1.2m tonnes shelled against 1.23m this season.

World groundnut crushings are forecast to rise 1.5m tonnes to a record 9.1m, shelled basis. The biggest increase in crushings is seen in India where they are forecast to rise by almost 60 per cent to 2.9m tonnes, matching the 1986/87 level.

But the Indian crushings could be realised only if at least 4.8m tonnes were harvested, Oil World said.

China is expected to remain the world's major groundnut crusher and its crushings should rise 11 per cent to an estimated 3.75m tonnes. Groundnut exports, shelled, are seen at 987,000 tonnes after an anticipated 935,000 this season and up from 921,000 tonnes last season.

World groundnut oil output is seen at 3.66m tonnes after just over 3.0m this season and up from last season's 3.4m, with meal output expected to reach 5.2m tonnes, up sharply from this season's 4.4m and last season's 4.9m tonnes.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,050-2,100 (2,080-2,120).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 5.35-5.50 (5.30-5.50).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, ingots 8.00-8.20 (same), sticks 8.00-8.20 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.50-6.80 (6.60-6.85).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 323-333 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.45-3.55 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 9.55-9.75 (9.60-9.80).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 48-61 (50-61).

VANADIUM: European free market, min 98 per cent, VO, cif, 3.50-4.00 (3.25-3.35).

URANIUM: Nuexco exchange value, $ per lb, UO, 15.75 (same).

Indonesia set to evict illegal gold miners

BY JOHN MURRAY BROWN IN KALIMANTAN

INDONESIA THIS week faces the tricky task of clearing some 100,000 gold miners prospecting illegally on blocks contracted out to foreign companies.

The issue, which threatens the country's bid to become a major gold producer, has come to a head after complaints from concessionaires, some warning they may withdraw their operations.

The Mines Department in Jakarta has hinted that the army may be sent in but local government officials, many said to be personally involved backing the freelance diggers, are likely to be more sympathetic.

The dispute has presented the Government with an awkward dilemma at a time when mounting debt problems and softer oil prices intensify the search for new exports.

In remote areas like Kalimantan gold provides a traditional source of livelihood for local tribes. With their best lands already taken by outside logging interests, many fear they may lose out on this latest gold rush.

Some Jakarta newspapers are rallying to their cause. "Dispossessed Again" declared an editorial in the Indonesian Observer in April, comparing the Kalimantan Dayak with the American Indian.

There have been some ugly incidents. At one foreign site, the security compound where bullion is stored was broken into. At another prospect fighting between aggrieved local miners and Indonesians employed by a foreign company resulted in a number of deaths, according to residents.

"It is certainly not as bad as what now happens in Brazil," said the managing director of an Australian company. Nonetheless many groups are reviewing investment plans. Smaller firms already have been hit hard by October's stock market crash, for many the main vehicle for raising investment capital.

"The Government may have overlooked some of the underlying social issues, but it has a contractual obligation to the foreign company," commented a Jakarta lawyer involved in drafting some of the 100-odd contracts since Indonesia relaxed investment regulations in 1986.

Most large international names are represented, including BP Minerals of the UK, Newmont Mining and Pennzoil of the US, and CRA, the Australian group. Blocks are sometimes as large as 10,000 sq km and altogether cover 10 per cent of Indonesia's land.

Some local businessmen also stand to gain. A boarding house owner in central Kalimantan said he paid more than Rp 100m (£35,000) for a jungle plot in the hope of attracting foreign equity partners. He now listens to the BBC each day to catch news of the London gold fixing.

Jakarta has since restricted purchases of local mining rights but it is still possible in remote sites to subcontract small lots, at Rp 100,000 for 5 sq m, recovering costs within two months.

The problems have arisen where locals encroach on foreign concessions, attracted by the lucrative hard rock deposits. A decision to lift the ban on gold exports merely highlighted the scale of the illegal operations.

Working conditions are often perilous. At one site, miners are 20m underground, employing so-called pharaonic methods where fire and water is used to crack the ore lode – sometimes with fatal results. But the rewards are attractive. A miner can earn £45 a week – a handsome sum given Indonesia's national per capita average of $300 a year.

The Government, in a first step to resolve the issue, is conducting a census to identify miners coming from other provinces. But with Jakarta still officially encouraging spontaneous settlement to such remote areas, any move to force these people to go home, as has been mooted, seems certain to meet with strong opposition.

WORLD COMMODITIES PRICES

LONDON MARKETS

Soyameal futures fell sharply near the close in London yesterday, reversing an early advance of up to £5 a tonne, to end the day £5 to £2.50 a tonne easier. The downward reaction followed a fall in soyameal futures prices in Chicago when that market opened, traders said. This triggered profit-taking which saw the October position trade down from £217 to £207 a tonne. The weakening of the US dollar against the pound caused a fall in most metal prices on a day when trading in London was generally quiet. Spot tin on the European free market eased back from Monday's ten-month high by £32.50 to £4162.50 a tonne for high grade metal in warehouse Rotterdam. The exception to the rule yesterday was lead which made some headway on the London Metal Exchange before profit-taking pared the advance. Even so, the cash price was up by £2.50 a tonne to £385.50. Three-months metal, however, slipped £1 to £377.50 a tonne.

COCOA £/tonne

	Close	Previous	High/Low	
Jly	935	926	931	918
Sep	954	949	955	933
Dec	967	960	967	949
Mar	987	981	988	970
May	1002	1001	1001	988
Jly	1022	1020	1010	1008
Sep	1041	1040	1027	

Turnover: 7982 (4830) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Jun 27: 1202.13 (1207.80). 10 day average for Jun 28: 1196.41 (1195.65).

COFFEE £/tonne

	Close	Previous	High/Low	
Jly	1093	1106	1100	1092
Sep	1115	1126	1121	1106
Nov	1131	1142	1136	1126
Jan	1151	1162	1150	1144
Mar	1170	1182	1171	1162
May	1185	1195	1180	1175

Turnover: 3784 (2431) lots of 5 tonnes

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	2770-90	2910-30		2810-30		
3 months	2670-90	2760-80		2710-30	2640-60	5,657 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 34,725 tonne
[illegible]						

US MARKETS

FORECASTS of shower activity coupled with the upcoming first notice day on July contracts prompted heavy long-liquidation across the board in the grains and soyabean complex, reports Drexel Burnham Lambert. Cattle futures rose sharply as packers continued to buy, forcing cash prices higher, and as fears of herd liquidation eased with the likelihood of light rains. Hogs, however, continued on the defensive, while bellies were lower reflecting burdensome storage stocks. Sugar finished with pared gains in the limit free October contract, the back months were locked limit-up, as initial strength in the market on follow-through commission house and trade buying prompted profittaking. Late trade and local selling depressed precious metals prices, touching off stops as support areas were penetrated. Long-liquidation in July silver added to the downward momentum in that market. Copper, too, came under pressure as traders rolled positions from July into the September contract, while unleaded gasoline rallied as concerns over nearby supplies continued. Coffee fell with speculative selling, cocoa rallied with strength in nearby positions reflecting lack of good quality availability.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	437.5	443.0	444.5	441.0
Jul	438.0	443.4	440.0	440.0
Aug	440.5	445.9	447.7	439.8
Oct	445.6	451.0	453.0	445.0
Dec	450.7	456.1	458.1	450.2
Feb	456.0	461.5	463.5	460.5
Apr	461.3	466.8	0	0
[illegible]				

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	16.01	15.86	16.03	15.80
Sep	16.22	16.10	16.22	16.04
Oct	16.33	16.30	16.39	16.21
Dec	16.54	16.51	16.88	16.42
Jan	16.50	16.57	16.50	16.47
[illegible]				

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	1014/4	1059/4	1059/[illegible]	1014/4
Aug	1010/0	1055/0	1057/[illegible]	1010/0
[illegible]				

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Central banks sell dollars

CENTRAL BANKS intervened yesterday to dampen the dollar's recent sharp rise. The move was successful, although the US unit showed signs of recovering in the afternoon. The dollar started the day on a softer note, showing the effects of profit taking in Tokyo, after its recent strong improvement.

Major central banks started to sell dollars very early on in European trading, and although the amounts involved were probably little more than modest, the authorities caught most people off balance, and prompted a scramble to offload long positions.

The timing of the intervention was extremely effective, as the desired effect - a lower dollar - was achieved at a relatively acceptable cost. However many traders believed that the dollar's undertone remained bullish and that the absence of any intervention by the Bank of Japan suggested that yesterday's concerted move was little more than a smoothing operation.

Others were more sceptical, pointing out that with US trade figures now only two weeks away, there was likely to be less incentive to push the dollar firmer. Early forecasts suggest that April's sharply narrower trade deficit is unlikely to be improved upon.

With the debate finely balanced, the dollar showed signs of recovery towards the close, and once more broke through DM1.80 and Y130, having been as low as DM1.7920 and Y129.65 at one point.

The dollar closed at DM1.8090 from DM1.8185 and Y130.90 compared with Y130.85. Elsewhere it finished at SFr1.4960 from SFr1.5055 and FFr6.0925 compared with FFr6.1375. On Bank of England figures, the dollar's exchange rate index fell from 97.0 to 96.6.

Sterling had recouped most of the losses sustained after Monday's release of poor May trade figures at one point, but the dollar's recovery towards the close meant that the pound's exchange rate index finished unchanged from the opening at 75.1. Although this was up from Monday's close of 74.8, it was well down from the day's high of 75.5. Part of the softer tone in the afternoon reflected investors' disappointment that UK base rates had not been lifted by a full point to 10 p.c.

The pound improved to $1.7190 against the dollar from $1.7030 and DM3.1100 against DM3.0975 in D-Mark terms. It was also higher against the yen at Y225.00 from Y222.75. Elsewhere it closed at SFr2.5725 from SFr2.5650 and FFr10.4725 against FFr10.4525.

Elsewhere the D-Mark performed well against its EMS partners. Investors moving out of dollars tended to purchase D-Marks to a greater extent than other EMS currencies. Consequently the D-Mark rose to FFr3.3780 in early Paris trading, up from FFr3.3725 on Monday. However the French franc fought back so that the D-Mark slipped back at the fixing to FFr3.3715.

As well as its intervention in the open market, the Bundesbank sold $36.4m at the fixing in Frankfurt, and the dollar slipped to DM1.7966 from DM1.8235 on Monday. Elsewhere the D-Mark rose to Y72.36 from Y71.92.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 28	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4627	+2.37	+1.11	±1.5344
Danish Krone	7.85212	7.87747	+0.32	-0.94	±1.5404
German D-Mark	2.05853	2.07514	+0.81	-0.45	±1.0981
French Franc	6.90403	6.99611	+1.33	+0.07	±1.3674
Dutch Guilder	2.31943	2.33949	+0.86	-0.40	±1.5012
Irish Punt	0.768411	0.772581	+0.52	-0.74	±1.6684
Italian Lira	1483.58	1539.93	+3.80	+3.12	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

£ IN NEW YORK

June 28	Latest	Previous Close
£ Spot	1.7200-1.7205	1.7020-1.7030
1 month	0.27-0.26pm	0.26-0.24pm
3 months	0.86-0.83pm	0.86-0.84pm
12 months	2.96-2.86pm	3.15-3.05pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 28	Previous
8.30 am	75.1	75.4
9.00 am	75.1	75.5
10.00 am	75.2	75.4
11.00 am	75.3	75.3
Noon	75.5	75.0
1.00 pm	75.2	74.7
2.00 pm	75.2	74.8
3.00 pm	75.3	74.7
4.00 pm	75.1	74.8

CURRENCY RATES

June 28	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.770152	0.668516
U.S. Dollar	6	1.31388	1.15286
Canadian $	8.75	1.58651	1.38862
Austrian Sch.	3	16.8755	14.6021
Belgian Franc	6½	50.2920	43.4627
Danish Krone	7½	9.08220	7.87747
Deutsche Mark	2½	2.39586	2.07514
Neth. Guilder	3¼	2.70791	2.33949
French Franc	9½	8.09350	6.99611
Italian Lira	12½	N/A	1539.93
Japanese Yen	2½	172.118	150.448
Norway Krone	8	8.64927	7.52412
Spanish Peseta	-	158.311	137.374
Swedish Krona	8½	8.23671	7.15463
Swiss Franc	2½	1.98462	1.71718
Greek Drach.	20½	191.156	165.781
Irish Punt	-	N/A	0.772581

*All SDR rates are for June 27

CURRENCY MOVEMENTS

June 28	Bank of England Index	Morgan** Guaranty Changes %
Sterling	75.1	-18.0
U.S. Dollar	96.6	-10.8
Canadian Dollar	84.7	-2.2
Austrian Schilling	135.1	+9.8
Belgian Franc	98.4	-5.8
Danish Krone	90.7	+1.4
Deutsche Mark	145.2	+21.0
Swiss Franc	170.3	+22.1
Guilder	133.5	+13.8
French Franc	70.0	-14.3
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

[illegible]

OTHER CURRENCIES

June 28	£	$
[illegible]	[illegible]	[illegible]
Korea(Sth)	1235.35-1246.35	725.60-752.20
Kuwait	0.48350-0.48400	0.28030-0.28040
Luxembourg	65.00-65.10	37.80-37.90
Malaysia	4.4775-4.4890	2.5940-2.5960
Mexico	3921.10-3950.75	2280.00-2290.00
N Zealand	2.5020-2.5070	1.4545-1.4560
Saudi Ar.	6.4685-6.4745	3.7500-3.7510
Singapore	3.5100-3.5160	2.0320-2.0340
S. Af (Cm)	3.9700-3.9810	2.2995-2.3010
S. Af (Fn)	5.6605-5.7555	3.2785-3.3335
Taiwan	49.15-49.45	28.80-28.90
U.A.E.	6.3350-6.3410	3.6725-3.6735

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

June 28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7160-1.7280	1.7185-1.7195	0.26-0.23cpm	1.71	0.84-0.79pm	1.90
Canada	2.0745-2.0920	2.0755-2.0765	0.11-0.02cpm	0.38	0.30-0.18pm	0.46
Netherlands	3.49½-3.51	3.49¾-3.50¾	1¾-1⅝cpm	5.57	5-4¾pm	5.35
Belgium	64.85-65.30	65.00-65.10	24-12cpm	3.32	65-52pm	3.60
Denmark	11.78¼-11.83	11.78¼-11.79¼	1¼-¼orepm	0.95	5-3¼pm	1.40
Ireland	1.1530-1.1605	1.1565-1.1565	0.16-0.23pdis	-2.02	0.50-0.65dis	-1.99
W. Germany	3.09¾-3.11½	3.10¼-3.11¼	1½-1pfpm	4.82	4¼-3⅞pm	5.31
Portugal	252.80-256.35	252.80-253.80	26-64cdis	-2.13	101-201dis	-2.38
Spain	204.45-206.25	205.50-205.80	8-18cdis	-0.76	15-27dis	-0.41
Italy	2299¾-2311¼	2304½-2305½	par-4liredis	-1.04	1-8dis	-0.78
Norway	11.24¼-11.35	11.24¼-11.25¼	2¼-3¾oredis	-3.00	7¼-9dis	-2.98
France	10.45½-10.50¼	10.46¼-10.47¼	2¾-1¼cpm	2.08	6½-5¼pm	2.24
Sweden	10.68¾-10.75	10.68¾-10.69¾	¾-1¾oredis	-1.12	1½-2¼dis	-0.63
Japan	224-225¾	224½-225½	1¼-¾ypm	5.33	3¼-2¾pm	5.33
Austria	21.81-21.93	21.81-21.84	10-9grom	5.22	30¾-23½pm	4.97
Switzerland	2.56¾-2.58	2.56¾-2.57¾	1½-1cpm	5.83	4½-3¾pm	6.32

Belgian rate is convertible francs. Financial franc 65.35-65.45. Six-month forward dollar 1.61-1.56cpm 12 month 2.93-2.83pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7160-1.7280	1.7185-1.7195	0.26-0.23cpm	1.71	0.84-0.79pm	1.90
Ireland†	1.4850-1.4965	1.4855-1.4865	0.08-0.15cdis	-0.92	0.19-0.29dis	-0.64
Canada	1.2030-1.2115	1.2070-1.2080	0.12-0.15cdis	-1.34	0.42-0.45dis	-1.44
Netherlands	2.0270-2.0410	2.0375-2.0385	0.67-0.65cpm	3.91	1.78-1.74pm	3.47
Belgium	37.68-37.90	37.80-37.90	6.50-4.50cpm	1.75	18.00-14.00pm	1.70
Denmark	6.82-6.89½	6.85½-6.86	0.15-0.65oredis	-0.70	0.65-1.15dis	-0.53
W. Germany	1.7920-1.8100	1.8085-1.8095	0.53-0.50pfpm	3.44	1.55-1.51pm	3.40
Portugal	147½-148¼	147½-148	40-55cdis	-3.88	130-180dis	-4.22
Spain	118.60-119.70	119.55-119.65	20-30cdis	-2.52	63-73dis	-2.28
Italy	1334-1343¼	1340¼-1341¼	2.00-3.00liredis	-2.24	7.90-9.90dis	-2.66
Norway	6.50¾-6.59¼	6.54-6.54½	2.45-2.60oredis	-4.64	8.00-8.20dis	-4.96
France	6.06-6.10	6.09-6.09½	0.33-0.13cpm	0.45	0.60-0.30pm	0.30
Sweden	6.19½-6.24¼	6.21¾-6.22¼	1.30-1.40oredis	-2.35	3.90-4.10dis	-2.32
Japan	129.65-131.00	130.85-130.95	0.40-0.37ypm	3.54	1.16-1.12pm	3.49
Austria	12.63-12.78	12.67¼-12.68¼	3.70-3.40gropm	3.36	11.50-10.50pm	3.47
Switzerland	1.4875-1.4985	1.4955-1.4965	0.55-0.52cpm	4.31	1.64-1.59pm	4.34

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.00-38.10.

EURO-CURRENCY INTEREST RATES

June 28	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	8⅞-8⅝	9-8⅞	9⅝-9½	9⅞-9¾	10-9⅞	10¼-10⅛
US Dollar	7⅝-7½	7⅞-7⅝	7⅞-7¾	7⅞-7¾	8-7⅞	8⅜-8¼
Can. Dollar	8⅝-8⅜	8⅝-8⅜	8⅞-8⅝	9¼-9	9⅝-9⅜	9⅞-9⅝
D. Guilder	2¾-2½	3¼-2¾	3⅝-3⅜	4⅛-4⅛	4⅝-4½	4⅞-4⅝
Sw. Franc	2¾-2⅝	3¼-3	3¼-3⅜	3⅞-3¾	3⅞-3⅞	3⅞-3⅞
Deutschmark	4¼-4⅛	4⅜-4¼	4⅜-4⅝	4⅞-4⅝	4⅝-4½	4⅞-4⅞
Fr. Franc	7⅞-7⅞	7⅝-7⅞	7⅞-7⅞	7⅝-7⅛	7⅞-7⅞	8-7⅞
Italian Lire	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EXCHANGE CROSS RATES

June 28	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.322	0.553	1	72.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	4.444	7.640	13.82	1000.	46.53	11.44	15.57	10244	9.227	289.1
F Fr.	0.955	1.642	2.970	214.9	10.	2.457	3.346	2202	1.983	62.13
S Fr.	0.389	0.668	1.209	87.45	4.069	1	1.361	895.8	0.807	25.28
H Fl.	0.285	0.491	0.888	64.23	2.989	0.735	1	658.0	0.593	18.57
Lira	0.434	0.746	1.349	97.61	4.542	1.116	1.520	1000.	0.901	28.22
C $	0.482	0.828	1.498	108.4	5.043	1.239	1.687	1110	1	31.33
B Fr.	1.537	2.643	4.781	345.9	16.10	3.955	5.385	3543	3.191	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Short sterling and gilts firm

THREE-MONTH sterling deposits attracted renewed demand in yesterday's Liffe market, despite an increase in base rates. The contract was bought soon after the Bank had signalled a rise for only half a point to 9½ p.c., because both cash and futures had already discounted a full one point rise.

Consequently the September price rose to a high of 89.94 from 89.73 at the opening, and finished at 89.91, compared with 89.74 on Monday.

Long gilt futures recorded useful gains in fairly brisk trading, as investors took heart from yesterday's rise in base rates. Institutions regarded the move as a positive step in the fight against rising inflation. September contracts moved up to 94-13 at the close, against 94-03 at the opening and 93-30 on Monday.

US Treasury bonds opened lower as the dollar lost ground, after central bank intervention. However sentiment was reversed in the afternoon as the dollar attracted renewed demand. The September price slipped to a low of 87-08 from an opening level of 87-16, but recovered strongly to finish at 87-27, although this was still down from 88-08 on Monday.

Sentiment in FT-SE contracts also turned to finish on a better note, helped by a rise on Wall Street. The June price finished at 185.40, up from 184.65, and showing nearly a four point premium on the cash index.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE FT-SE INDEX FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7190	1.7166	1.7109	1.7032	1.6902

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Sep	1.7150	1.7210	1.7148	1.6942
Dec	1.7070	1.7120	1.7060	1.6852
Mar	1.7010	1.7040	-	1.6774

MONEY MARKETS

Base rates up but only half a point

THE BANK of England's timing on yesterday's base rate rise was much as expected, but the amount - just a half point - did come as surprise to some. Perhaps yesterday's sharp recovery in the pound influenced the authorities' decision, but with interbank rates still some way to discounting another half point rise, most dealers felt it was only a matter of time before rates went to 10 p.c.

Yesterday's move - the fourth this month - was also a little disappointing, because the Bank failed to stamp its authority on the market, and was still considered to be lagging not leading the change in interest rates.

UK clearing bank base lending rate 9½ per cent from June 28

The key three-month interbank rate started at 10-9⅞ p.c., up from 9⅞-9⅞ p.c. and finished at 9⅞-9¾ p.c. Overnight money traded between a high of 10 p.c. and a low of 8 p.c.

The Bank of England forecast a shortage of around £200m, with factors affecting the market including bills maturing in official hands and repayment of any late assistance together with a take up of Treasury bills draining £86m, and Exchequer transactions taking out a further £25m. In addition, banks brought forward balances £115m below target which were partly offset by a fall in the note circulation of £35m.

The forecast was revised to a shortage of around £100m and the Bank invited discount houses to use their borrowing facilities at 2.30 pm, when funds would be available at 9½ p.c. There was no offer to buy bills either in the morning or afternoon. The forecast was revised once more, this time to a flat position and there was no lending required.

Higher rates were also seen in Frankfurt, where call money was quoted as high as 4.50 p.c. compared with 4.00 p.c. on Monday. Dealers expect the Bundesbank to increase the discount rate from its current historical low of 2.5 p.c., when the central council meets tomorrow.

The D-Mark's improvement against the dollar yesterday is unlikely to influence the authorities, mainly because there are other pressing reasons for a rise in rates, notably, above target money supply growth and rising capital outflows.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 28) 3 months US dollars		6 months US Dollars	
bid 7¾	offer 7⅞	bid 7⅞	offer 8

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	9
Broker loan rate	8½
Fed. funds	7⅝-⅞
Fed. funds at intervention	7⅞

Treasury Bills and Bonds

One month	5.85	Three year	8.23
Two month	6.12	Four year	8.42
Three month	6.82	Five year	8.53
Six month	7.09	Seven year	8.76
One year	7.52	10-year	8.91
Two year	8.09	30-year	8.93

June 28	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.30-4.50	4.10-4.25	4.15-4.30	4.35-4.50	4.50-4.65	4.50
Paris	7¼-7½	7⅛-7¼	7⅛-7⅛	7¼-7⅜	7⅛-7⅜	7.00
Zurich	1⅝-1⅞	2⅞-3¼	-	3-3¼	-	-
Amsterdam	1⅞-2¼	3⅜-3⅜	-	4⅜-4⅜	-	-
Tokyo	3.65625	3.96875	-	4.03125	-	-
Milan	10-10½	10¾-11¼	-	11-11½	-	-
Brussels	2.90	6-6¼	-	6¼-6¼	-	-
Dublin	7-7¼	7½-7¾	7¼-7⅜	7⅞-8	8½-8¾	-

LONDON MONEY RATES

June 28	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	10	9⅞	9⅞	10	10¼	10½
Interbank Bid	8	8⅞	9½	9¾	10	10⅜
Sterling CDs	-	-	9⅝	9⅞	10	10⅜
Local Authority Deps.	9	9	9½	9⅞	9⅞	10¼
Local Authority Bonds	-	-	8	8⅞	9½	9¾
Discount Mkt Deps.	9	9	8¾	9¼	-	-
Company Deposits	8⅞	8⅞	9⅝	10	10	10⅜
Finance House Deposits	-	-	9⅝	9⅞	9⅞	10¼
Treasury Bills (Buy)	-	-	9½	9½	-	-
Bank Bills (Buy)	-	-	9½	9⅝	9¾	-
Fine Trade Bills (Buy)	-	-	10⅛	10⅛	10⅛	-
Dollar CDs	-	-	7.75-7.70	7.75-7.70	7.95-7.90	-
SDR Linked Dep Offer	-	-	6⅛	6⅜	6⅜	7⅛
SDR Linked Dep Bid	-	-	6⅛	6⅛	6½	6⅞
ECU Linked Dep Offer	-	-	6⅛	6⅜	6⅞	7⅛
ECU Linked Dep Bid	-	-	5⅞	6¼	6⅞	6⅞

Treasury Bills (sell): one-month 9¼ per cent; three months 9¼ per cent. Bank Bills (sell): one-month 9⅞ per cent; three months 9⅞ per cent; Treasury Bills: Average tender rate of discount 9.0321 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 31, 1988. Agreed rates for period June 26, 1988 to July 25, 1988, Scheme I 9.37 p.c., Schemes II & III: 9.39 p.c. Reference rate for period April 30, 1988 to May 31, 1988. Scheme IV & V 8.115 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 8½ % from June 1 1988. Bank Deposit Rates for sums at seven days notice - per cent. Certificates of Tax Deposit (Series 6). Deposit £100,000 and over held under one month 7½ per cent; one-three months 8¼ per cent; three-six months 8¼ per cent; six-nine months 8½ per cent; nine-twelve months 8½ per cent; Under £100,000 6 per cent from May 17, 1988. Deposits withdrawn for cash 5.00 per cent.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 35,164

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

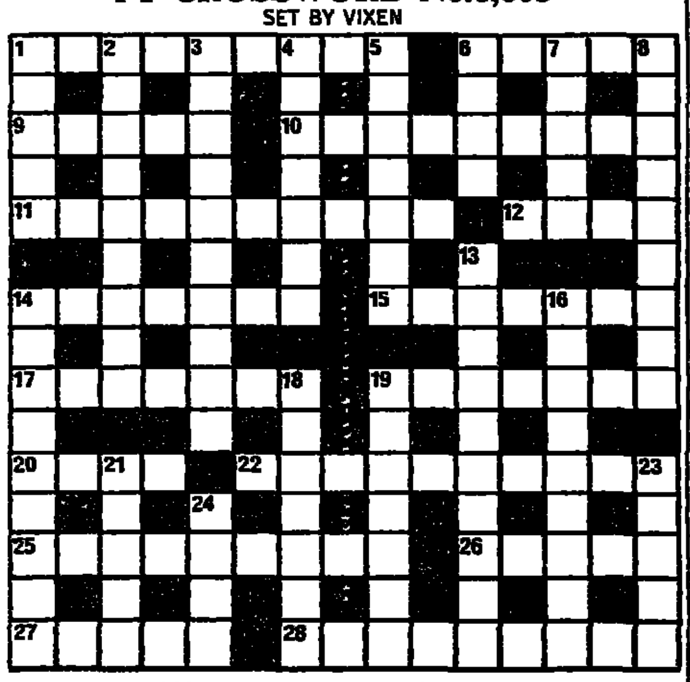
Bishopsgate Progressive Mgmt Co
15 St James' Place, London SW1A 1NW 01-493 8111

Brewin Dolphin Unit Tst Mgrs Ltd
5 Giltspur St, London EC1A 9DE 01-248 4400

JOTTER PAD

FT CROSSWORD No.6,668

SET BY VIXEN



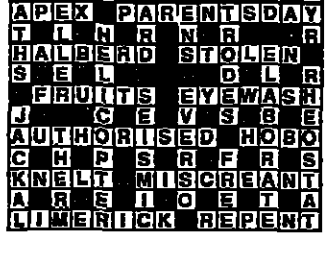
ACROSS

1 Going over a church in the utmost discomfort (9)
6 The back lawn is attractive (5)
9 Put off in the past – made terrible mistakes (5)
10 It just shows the heights to which one may rise! (9)
11 Coalfields shake-up responsible for cut fare (6,4)
12 A redhead child can be roguish (4)
14 Invalid puff about obligation (7)
15 Fine though minor role in "The Merry Wives of Windsor" (7)
17 Personal cover only raised when it's really fair (7)
19 The entertainer's attire's bizarre! (7)
20 Call sharply for the old-time record (4)
22 Hand one over at one point, being over-eager (10)
25 Agreed on a cocktail as the non-alcoholic drink (9)
26 Not fitting in a drill (5)
27 The poet's weekend food (5)
28 Perpetually gullible, so maybe box (9)

DOWN

1 The main ups and downs (5)
2 Person providing clothing for a mechanic on strike? (9)
3 An antelope – sound healthy animal (10)
4 The guy allowed to arrange the flowers (7)
5 Implicates parents by mistake (7)
6 A mother, quiet and dull (4)
7 Post some grafter wanted (5)
8 Ask a higher price for fish caught in swell (9)
13 The eccentric got in, since causing division (10)
14 Bloomer over a weather-vane? Rubbish! (9)
16 Many hit back in wise fashion to express contempt (9)
18 Leaves a cigarette in general (7)
19 To be sure, ate pie, though quite hard (7)
21 The sovereign has a place in the mountains (5)
23 Munched at to occupy the evening (5)
24 When holding back for example appears more mature (4)

Solution to Puzzle No.6,667



GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

FT UNIT TRUST INFORMATION SERVICE

Target Trust Mngrs Ltd (1200)H
Target Hse, Gatehouse Rd, Aylesbury Bks 0296 394000

	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	65.9xd	70.0	-0.8	1.18
Australia	8.1	8.6	-0.2	0.10
Commodity	81.9	87.3	-0.1	1.03
Convertible	147.7	157.0	-1.6	5.57
Equity	144.3xd	153.8	-0.6	3.19
Euro Spec Sits	80.0	85.0	-0.5	1.28
Financial	31.1	33.1	-0.2	1.90
Global Opps Inc	57.5	60.9	-0.6	1.42
Global Opps Acc	57.5	60.9	-0.6	1.42
Gold Income	54.9	58.2	-1.6	0.85
Gold Acc	101.1	107.4	-2.7	0.85
Income	105.4xd	112.2	-1.0	4.81
Japan	121.7	129.1	-1.5	0.10
Pacific Income	117.8	124.9	-0.1	0.85
Pacific Re Inv	145.8	154.7	-0.3	0.85
Preference Share	25.5	27.2	-	6.72
Special Sits	101.0	107.3	-0.3	0.58
Technology	42.9	45.7	-0.1	0.10
UK Capital	89.8	95.6	-0.2	1.28
World Income	51.4	54.7	+0.5	5.18
Worldwide Capital	147.0	156.5	-0.4	1.14
Equity Exempt	121.6xd	118.9	-0.8	1.53
Equity Exempt Acc	212.7	226.4	-1.3	1.53

Templeton Investment Mngmt
20 Cousthall Avenue, EC2R 7PA. 01-588 6064

	Bid Price	Offer Price	+ or -	Yield Gr's
Intl Pen & Ch'ties	89.7xd	93.4	-0.2	-

Thornton Unit Managers Ltd
33 Cavendish Sq., London W1M 7HF 01-493 7262
Dealing 01-493 8545

	Bid Price	Offer Price	+ or -	Yield Gr's
American Opps	38.8	41.4	-0.4	1.33
(Accum Units)	39.7	42.3	-0.3	1.33
European Opps	42.6	45.4	-0.3	1.06
Far Eastern Opps	85.8	91.5	-0.2	0.45
(Accum Units)	86.1	91.8	-0.1	0.45
Golden Opps	35.7	38.1	-1.1	1.17
Intl Hi-Yield	45.2	48.2	-0.5	4.09
Japanese Opps	58.7	62.6	-0.5	0.90
(Accum Units)	58.7	62.6	-0.5	0.90
Kangaroo	31.7xd	33.8	-0.8	1.34
Oriental Income	29.0	30.9	-0.5	2.00
(Accum Units)	29.5	31.5	-0.5	2.00
Pacific Technology	53.6	57.2	-1.0	0.00
(Accum Units)	53.6	57.2	-1.0	0.00
Tiger	85.1	90.8	-0.3	0.48
(Accum Units)	85.8	91.5	-0.3	0.48
UK Hi-Yield	41.3xd	44.1	-0.2	8.49
(Accum Units)	44.7xd	47.7	-0.2	8.49
UK Opps	45.4	48.6	-0.3	1.96

INSURANCES

AA Friendly Society
(Investment Mngt. M & G Inv Mngt Ltd)

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Sy Jun 30	-	139.4	-	-

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

	Bid Price	Offer Price	+ or -	Yield Gross
Prop. Ser. 1	241.7	254.5	+7.1	-
Equity Ser. 1	114.4	120.5	-1.5	-
Prop. Acc. Ser 2	350.0	368.5	+10.1	-
Equity Ser 2	129.9	136.8	-1.8	-
Selective Acc	282.6	297.5	+0.9	-
Prop. Ser. 4	275.5	290.0	+7.5	-
Equity Ser. 4	132.4	139.4	-1.4	-
Fixed Int. Ser. 4	209.3	220.4	-0.9	-
Indexed Inv. Ser. 4	119.9	126.3	-0.1	-
American Ser. 4	260.4	274.2	-3.7	-
High Inc. Ser. 4	373.8	393.5	-3.7	-
Japan Ser 4	278.2	292.9	-1.2	-
Man. Ser. 4	371.4	391.0	-1.7	-
Money Ser. 4	216.0	227.4	+0.2	-
European Ser 4	91.8	96.7	+0.3	-
Pension Funds				
Property	464.7	489.2	+13.6	-
Equity	938.8	988.3	-12.7	-
Selective	300.7	316.6	+0.4	-
Managed	674.8	710.4	-0.7	-
Security	395.6	416.5	+0.6	-
Fixed Int	233.5	245.8	-2.0	-
European	124.6	131.2	+0.5	-
American	213.9	225.2	-4.1	-
Japan	298.0	313.7	-1.5	-
Indexed	127.2	133.9	-0.1	-
International	143.2	150.8	+0.1	-
Ethical	100.1	105.4	-0.7	-
High Income	99.7	105.0	-1.2	-

Abtrust Management Ltd
20, Chiswell St, London, EC1Y 4TY 01-374 6801

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Growth	302.74	318.68	-	-
Managed Income	134.91	142.02	-	-

AEtna Life Insurance Co Ltd
401 St John St, London EC1V 4QE 01-833 2303
Life Funds (Accumulator Units)

	Bid Price	Offer Price	+ or -	Yield Gross
Sentinel	11.74	12.36	-0.00	-
Bear	12.11	12.75	-0.11	-

FT UNIT TRUST INFORMATION SERVICE

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd. N. Waterloo, Liverpool 051-928 6655

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	269 1	283.3	.....	−
Man Pens Inc & Cap Fds	344 6	362.8	.....	−
Money Fund	112.9	118 9	.....	−
Pens. Mngd Fd (Unit)	89 1	93 8	.....	−
Pens Mngd Fd (Acc)	102.0	107.4	.....	−
Pens FT30 Fd (Unit)	129.5	136.4	.....	−
Pens FT30 Fd (Acc)	148.2	156 0	.....	−
Pens O'seas MgFd(Unit)	58 8	61 9	.....	−
Pens O'seas MgFd(Acc)	67.3	70 9	..	−
Pens Fxd Int. Fd (Unit)	107.3	113 0	.....	−
Pens Fxd Int Fd (Acc)	122.8	129.3	.....	−
Pens Deposit Fd (Unit)	101.4	106 8	.....	−
Pens Deposit Fd (Acc)	116.1	122.3	...	−

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or −	Yield Gross
American	99 0	105 0	−1.0	−
Building Soc. Fd.	161.0	170.0	.....	−
Balanced	243 0	256 0	...	−
Deposit	161 0	170 0	.....	−
European	127.0	134 0	.....	−
GT Managed	152.0	160 0	−2.0	−
Gartmore Mngd	102.0	108 0	.....	−
German	90 0	95 0	−1 0	−
Gilt	168.0	177.0	.....	−
High Inc	115 0	121 0	.....	−
International Equity	156.0	165.0	.....	−
Japan	221 0	233 0	.....	−
Managed	55 0	58 0	.....	−
Property	256 0	270 0	...	−
R. W. Imperial Gold	133.0	140.0	.....	−
UK Equity	320 0	337 0	.....	−
Pension Funds				
American	121 0	128 0	.....	−
Building Soc. Fd.	153 0	162.0	.....	−

Prudential Holborn Life Ltd
30 Old Burlington St. London W1X 1LB 01-439 3134

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fd	435.3	458.3	−2.7	−
Equity Fd.	876 8	923 0	−4.4	−
Intl Fd	308 0	324 3	−4.7	−
Fixed Int. Fd	361.5	380.6	−1.0	−
Prop. Fd	325 6	342 8	.....	−
Cash Fd	237 6	250.2	.....	−
Pacific Basin Fd	174.5	183 8	−2.0	−
North American Fd	125 6	132.3	−2.5	−
European Fd	128.9	135.7	−0.7	−
Holborn Balanced Gwth Fd.	101.5	106 9	−0.4	−
Holborn Strategic Gwth Fd	100.2	105.5	−0.3	−

Prudential Holborn Pensions Ltd
30 Old Burlington St. London W1X 1LB 01-439 3134

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	475.5	500 6	−1.8	−
Equity	683 9	719 9	−1.7	−
Global Equity	197.8	208.3	−2.7	−
Fixed Interest	373.5	393.2	−0 9	−
Property	319.5	336.4	.....	−
Cash	141 1	148 6	.....	−
Index Linked Gilt	166.1	174.9	.....	−
Guaranteed	9 56		.....	−
International Money	187.1	197.0	+1.2	−
North American Fd	56.7	59 7	−1.2	−
Japanese Fund	121.6	128.1	−1.2	−
European Fund	70.1	73.8	−0 5	−
Special Situations Fd.	97 0	102.2	−0.3	−
Communications Fund	85.1	89 6	−0.4	−
Smaller Cos Fund	99 3	104.6	−0.4	−

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	+ or −	Yield Gross
Discretry June 23	£128 69	132.30	.....	−
Equity Fund June 23	£140 62	144 85	.....	−
Intnl Fund June 23.	£21 00	21.70	.....	−
Intl Bond Fd June 23.	£10 40	10 54	.....	−

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

UK LISTED

[illegible]

OFFSHORE INSURANCES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
98[illegible]	83[illegible]	Redemption 3pc 1986-96	98[illegible]	+[illegible]	3.03	7.23
100[illegible]	99[illegible]	Treas. 9½pc '88	99[illegible]	+[illegible]	9.51	9.50
102[illegible]	100[illegible]	Treas 11½pc 1989	101[illegible]	+[illegible]	11.37	9.59
101[illegible]	99[illegible]	Treas 9½pc Cnv 1989	99[illegible]	+[illegible]	9.51	9.59
97[illegible]	95[illegible]	Treas 3pc 1989	96[illegible]	.....	3.10	6.72
102[illegible]	100[illegible]	Treas 10½pc 1989	100[illegible]	+[illegible]	10.42	9.62
102	100[illegible]	Exch.10pc 1989	100[illegible]	+[illegible]	9.96	9.65
103[illegible]	101[illegible]	Exch 11pc 1989	101[illegible]	+[illegible]	10.85	9.74
97[illegible]	95[illegible]	Treas 5pc 1986-89	96[illegible]	.....	5.20	8.18
104[illegible]	101[illegible]	Exch 10¼pcCv '89	101[illegible]	+[illegible]	10.15	9.39
107[illegible]	104[illegible]	Treas 13pc 1990‡‡	104[illegible]	+[illegible]	12.44	9.75
104[illegible]	101[illegible]	Exch 11pc 1990‡‡	101[illegible]	+[illegible]	10.81	9.75
107[illegible]	103[illegible]	Exch. 12½pc 1990	104[illegible]	+[illegible]	11.99	9.76
93[illegible]	91[illegible]	Treas. 3pc 1990	91[illegible]	-[illegible]	3.27	7.78
99[illegible]	97[illegible]	Treas 8¼pc 1987-90‡‡	97[illegible]	-[illegible]	8.43	9.46
102[illegible]	98[illegible]	Treas. 8pc Cv 1990 ‡‡	98[illegible]	+[illegible]	8.13	8.85
103[illegible]	100[illegible]	Treas. 10pcCv 1990	100[illegible]	+[illegible]	9.95	9.74
91[illegible]	88[illegible]	Exch 2½pc 1990	89	-[illegible]	2.81	7.66
107[illegible]	104[illegible]	Treas 11¾pc 1991	104[illegible]	.....	11.25	9.73
95[illegible]	92[illegible]	Funding 5¾pc '87-91‡‡	92[illegible]	-[illegible]	6.21	8.80
90[illegible]	87[illegible]	Treas. 3pc 1991	87[illegible]	.....	3.41	7.79
105[illegible]	101[illegible]	Treas 10pc Cv '91 ‡‡	101[illegible]	.....	9.87	9.48
107[illegible]	103[illegible]	Exch. 11pc 1991	103[illegible]	.....	10.63	9.73
98[illegible]	95[illegible]	Treas. 8pc 1991	95[illegible]	+[illegible]	8.39	9.62
113[illegible]	108[illegible]	Treas 12¾pc 1992‡‡	108[illegible]	+[illegible]	11.71	9.73
104[illegible]	100[illegible]	Treas 10pc 1992	100[illegible]	+[illegible]	9.92	9.72
98[illegible]	94[illegible]	Treas. 8pc 1992 ‡‡	94[illegible]	+[illegible]	8.43	9.61
106[illegible]	102[illegible]	Treas 10½pc Cv 1992‡‡	102[illegible]	+[illegible]	10.26	9.74
86[illegible]	83[illegible]	Treas. 3pc 1992	84[illegible]	-[illegible]	3.56	7.70
112[illegible]	107[illegible]	Exch. 12¼pc '92	108[illegible]	+[illegible]	11.33	9.81
117[illegible]	112[illegible]	Exch 13½pc 1992	112[illegible]	+[illegible]	12.02	9.83
105[illegible]	100[illegible]	Treas 10pc 1993‡‡	100[illegible]	+[illegible]	8.72	9.72

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
23¾	21¼	Tenneco $5	27¼	–⅛	$3.04	–	6.1
28½	19⅞	Texaco $6.25	27⅝	–½	♦$3.00	–	5.9
58½	43¼	Time Inc. $1	56½xd	–1¼	$1.00	–	1.0
20½	15¾	Transamerica $1	19⅞	–¼	$1.84	–	5.1
10½	754p	Transworld Corp $5	10	–½	20c	–	1.1
20¼	14½	TRINOVA Corp.	17½xd	–½	56c	–	1.8
19	15¼	USX $1	18¼	–⅜	$1.20	–	3.6
23	17⅛	Utd. Technologies	22½xd	–⅝	$1.60	–	3.9
32⅞	26¼	US West‖	32½	–½	$3.52	–	6.0
21¼	16⅞	Waste Management $1	20½xd	–½	48c	–	1.3
16¼	12⅞	Whirpool $1	16¼	–⅛	$1.10	–	3.7
32⅞	18¼	♦Woolworth $3½	31⅞	–⅞	$1.64	–	2.9

CANADIANS

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
309p	173p	ABM Gold Corp ‖	186p	–8	–	–	–
32p	11p	♦Abbot Energy Corp.	25p	–1	–	–	–
14¼	990p	♦Amer. Barrick Res.	12½	–¼	–	–	–
10p	3½p	American Lightwave	5p	......	–	–	–
47p	18½p	♦Armeno	25p	+1	–	–	–
76p	45p	Augmitto Expln.	66p	–1	–	–	–
13¼	10⅝	Bk. Montreal ‖	13¼	+⅛	$2.00	–	6.7
674p	514p	Bk. Nova Scot. ‖	665p	–9	76c	–	5.0
18	15¼	BCE ‖	17⅞xd	–½	$2.44	–	6.0
716p	591p	♦Bow Valley‖	677p	–3	♦40c	–	2.6
13½	10½	♦Brascan‖	12⅞	–¼	88c	–	3.0
328p	189p	♦Breakwater Res.	269p	–4	10c	–	1.6
11⅛	801p	Can. Imp Bank‖	11½	–½	$1.16	–	4.4
11	841p	Can. Pacific ‖	10¼	–¼	60c	–	2.5
41½	40	Do. 4pc Deb £100	40½	......	4%	–	9.9
509p	362p	Central Capital "A" ‖	503p	–6	–	–	–
886p	288p	Cons. TVX Min.	443p	–30	–	–	–
275p	76p	Danbus Res.	275p	+2	–	–	–
600p	430p	Derlan Inds.	587p	–13	11.75c	–	0.9
14½	984p	♦Echo Bay Mines	12½	–½	14c	–	0.5
40p	26p	Energex Minerals	36p	......	–	–	–
107p	83p	Euro-Asia Capital Ltd	98p	–1	–	–	–
382p	222p	♦Galactic Resources	377p	–5	–	–	–
125p	99p	♦Geodome Res.	125p	+4	–	–	–
394p	206p	Granges Expln‖	251p	–3	–	–	–
16½p	8½p	♦Gt Pacific Res.	9½p	–½	–	–	–
903p	652p	♦Gulf Canada‖	862p	–41	52c	–	2.7
11⅝	816p	♦Hawker Sid Can‖	11½	+⅛	$1.08	–	4.1
589p	344p	Henlys Group	503p	–6	–	–	–
957p	785p	♦Hudson's Bay ‖	916p	–11	60c	–	2.9
27⅝	22⅞	♦Imperial Oil‖	26¼	–½	$1.80	–	3.0
19⅝	10½	Inco‖	19¼	–½	US$0.80	–	2.3
454p	312p	♦Intl. Corona Res.	443p	–11	–	–	–
718p	462p	♦Inland Nat. Gas $1	575p	–19	60c	–	4.6
594p	390p	♦Lacana Mining Corp ‖	581p	–13	Q15c	–	1.1
250p	150p	Madeleine Mines	228p	–3	–	–	–
199p	126p	♦Muscocho Expln.	187p	–2	–	–	–
187p	75p	♦Ntnl Business Sys. ‖	120p	–6	–	–	–
237p	110p	♦Nevada Goldfields	194p	–2	–	–	–
12	787p	♦Rio Algom	11½	–½	$1.30	–	4.9
15½	11½	Royal Bk. Can. ‖	15¼	–½	$2.08	–	6.1
274p	177p	♦Royex Gold Mining ‖	269p	–4	–	–	–
33½	26⅝	Seagram‖	32½	–⅞	US$1.20	–	2.0
361p	178p	♦Sonora Gold Corp‖	187p	–7	–	–	–
73p	18p	Spiral Eng.	57p	–1	–	–	–
150p	35p	Tara Pure Tech. Corp. ‖	148p	+3	–	–	–
15½	11⅞	Toronto-Dom. Bk. ‖	15¼	–¼	$1.12	–	3.2
64p	14p	♦Trans Atlantic Res ‖	20p	–4	–	–	–
671p	566p	♦Trans Can Pipe	664p	–4	68c	–	4.5
201p	127p	Varity Corp‖	187p	–1	B–	–	–

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd

INSURANCES

LEISURE

LONDON SHARE SERVICE

LEISURE—Contd

1988 High	Low	Stock		Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
242	170	Boosey & Hawkes	y	195	–10	3.0	4.5	2.1	12.2
49	29	Border T.V.	y	32	+1	†1.4	2.4	6.0	9.0
410	288	Brent Walker 10p.		399	.....	8.0	3.1	2.7	13.2
122	93	Do 6pc Cv.Cm.Rd.Pf	y	116	–1	6.0	–	6.9	–
321	202	Campari Int. 20p	y	302	+1	6.5	4.4	2.9	8.5
240	165	Castle Commns. 5p	y	237	.....	L7.0	2.0	4.0	16.6
304	161	Capital Radio 10p.		291	–2	16.0	2.7	2.7	18.0
568	447	Central TV		545	.....	22.0	2.5	5.4	10.1
146	115	Chrysalis	y	131	.....	7.0	1.9	7.1	9.7
85	43	Cityvision 5p		82	.....	0.5	3.7	0.8	33.6
32	13	Classic Tr'bres Int0.20		32	.....	–			
73	49	Edenderry		62½	–½	Q24.6%	0.9	9.0	19.4
30	14	Entertain Prod 5p	y	27½	.....	–			–
425	290	Fairline Boats 10p.	y	415	.....	†9.0	4.7	2.9	9.8
152	120	First Leisure		139	–2	2.34	3.2	2.2	18.5
445	325	GWR Group 20p	y	435	–5	–	–	–	17.1
50	42	Grampian TVA 10p		47	–1	2.5	2.6	7.1	7.2
40	26	Greenwich Comm.	y	33	–1	–	–	–	–
281	219	HTV Ord.		223	.....	†9.8	3.8	5.9	6.0
119	45	Hawlmax A$0.25		118½	.....	m06c	–	2.3	–
60	49	Julliana's Hldgs 2p.	y	55	.....	2.85	1.4	6.9	12.1
41	32	Kunick 10p		38	+½	†1.0	2.4	3.5	15.1
177	122	LWT 5p		154	.....	5.7	2.9	4.9	9.5
408	183	Lead Leisure 10p		402½	+3½	8.0	♦	2.7	♦
*118	68	Leisure Inv 10p		101½	–1	g†1.45	2.2	2.2	34.2
115	67	Leisuretime Int 10p.	y	96	–2	–	–	–	–
368	235	Marina Dev. 50p.	y	340	+2	–	–	–	–
257	175	Mecca Leisure 10p.		218	–1	†p3.65	2.9	2.3	17.8
106	35	Medminster 10p		103	–2	†t2.57	2.5	3.3	15.8
404	315	Midsummer Leis.		404	+4	†4.0	3.1	1.3	27.0
318	200	Miss World 10p.		318	.....	8.0	2.6	3.4	15.1
42	32	Multimedia Visions 5p		40	.....	–			♦
23	17	Oceaniccorp Inns NZ$0.5		23	.....	Q2c	6.0	3.1	5.4
169	87	Orient Ex Htls $0.125		116	–8	–			–
95	76	Owners Abroad 3p		94	.....	2.1	1.9	3.0	23.9
293	218	Pavilion Leisure 10p	y	265	+2	–			–

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Jun 20	Jun 30	Jul 1	Jul 11
Jul 4	Jul 14	Jul 15	Jul 25
Jul 18	Jul 28	Jul 29	Aug 8

*New time dealings may take place from 9.00 am two business days earlier.

Bonds and equities bounce higher after expected rise in base lending rates

THE ROUND of half point increases in UK base rates found a favourable reception yesterday in London securities markets which had feared that the Bank of England might push rates up by a full point. The City was hopeful that the half point rise will help to restrain domestic inflation and stabilise the pound.

Bond market specialists expressed diverse views of yesterday's performance, however. Nick Whitney of Warburg Securities commented: "base rates of 9½ per cent are not nearly high enough to depress domestic demand". He believes that short term rates will have to rise again, with negative implications for both bonds and equities.

A bond dealer at a US bank, took a more sanguine view. "It could be that this is the last move in UK rates this time round", he said, noting that UK base rates have been raised four times this month.

Both bonds and equities bounced higher as marketmakers, caught out by the sudden turn in the mood, hurried to buy stock. The about-turn in equities took the FT-SE Index from an early fall of 13 to a final gain of 15 points.

At the close, the FT-SE 100 Index was 15.4 points up at 1856.9. Seaq volume of 396.7m shares (390.7m on Monday), indicated a brisk but not heavy day's business.

The close of the session brought a rash of gains as marketmakers chased one another's quotations on the Inter-Dealer Broker (IDB) screens, seeking stock to meet both Monday's bear sales and also renewed speculative excitement in the insurance sector.

London was also helped by an initial improvement on Wall Street following the sharp fall of the previous session. However, the international blue chips were held back by Central Banks' restraint on the US dollar.

The market impetus came from the financial pitches where rumours that UK insurance groups might prove to be the next targets for European bid moves resurfaced.

Government bonds closed with gains of ½ a point, helped mostly by professional buyers, many of them closing bear positions opened in the previous session. Bonds had already been falling for two trading sessions before Monday's rout, and looked oversold when the market opened yesterday.

Some interest was shown in Index-linked issues, which added $\frac{1}{16}$ or so. Traders said the sector was following conventional Gilts rather than responding to inflation concerns.

Legal & General spearheaded another scintillating performance by a life assurance sector buoyed by ever–growing takeover speculation and booming sales of personal pensions. Legal shares jumped 15 more to 321p on turnover of 3.7m in a market alive with stories that Trieste–based Italian insurance group Generali is about to sell its stake in Compagnie du Midi and launch a bid for Legals.

Prudential also attracted heavy buying interest and leapt 10½ to 167½p on turnover of 5.2m although takeover talk here was shrugged aside by dealers. Abbey Life added 7 at 324p, London and Manchester 10 to 295p and Pearl 16 to 490p.

RHM rebounded as short-term operators regained confidence, and speculation concerning the Goodman Fielder shareholding of 29.8 per cent resurfaced. On this occasion, however, there was a twist to the story. Goodman is now rumoured to have discarded intentions of bidding for RHM and is considering the disposal of half of the stake, using the proceeds for an assault on a smaller UK food group.

Several domestic food majors were said to be keen on acquiring the RHM shares, with the market naming Hillsdown as the likely favourite. Volume, at 3.5m shares, was slightly disappointing and the upward momentum in the price owed much to stock shortages. RHM settled 19 higher at 402p.

Racal shares dropped to 337p before picking up to close a net 5 lower at 340p on turnover of 5.6m shares after the company revealed preliminary profits up some 38 per cent at £138.04m (£100.2m), and further details of the flotation of the group's Vodafone division, planned to take place in October.

The market was disappointed by the performance of the non–telecoms businesses, while there was continuing concern over opposition from a number of UK institutions and Millicom, the US holder of a 5 per cent stake in Racal, to the proposed sell–off of up 25 per cent of Vodafone.

Pilkington opened slightly easier, but firmed through the day as the market focused on possible bid stocks. Phillips & Drew was said to have been a large player in both Pilkington shares and options and dealers thought a hedged position was behind the activity.

The shares rose 9 to 213p and turnover was 4.3m shares. A small shortage of stock contributed to the rise.

Rotork, the valve control and machine tool manufacturer, surged higher as word went round that a large buyer was still lurking in the background. He refrained from operating yesterday but his recent activities have aroused speculation of stake-building as a prelude to a full bid.

Marketmakers still reported considerable business in the stock which rose 23 further to this year's high of 198p. Hopkinsons, which along with Meggitt has had talks with Rotork in the recent past, was rumoured to be a possible suitor, but the group yesterday denied having aspirations to take over Rotork.

International stocks closed generally better in reaction to the interest rate rise. Dealers had been discounting a full percentage point rise and were surprised when it did not happen. The subsequent sterling reaction led to an improvement in prices, with Glaxo shaking off its recent poor form and rising 7 to 965p.

ICI edged up 2 to £10⅞ in turnover of 1.5m shares, while both Beecham, up 6 to 468p, and Reckitt & Coleman, 8 better at 926p followed the market higher. Hanson was again sought by US buyers and 9.9m shares traded. At the close the price was 3p adrift from its low of 139p to finish marginally worse at 141½p.

Smith & Nephew was an improved market as aggressive buying sent the shares 4½ higher to 127p. Turnover of 7.3m was significantly higher than usual. BET rose 5 to 239p, boosted by predictions that the sale of its Argus Press subsidiary might raise around £300m.

Initially depressed, oils made excellent progress later in the session with the so-called bid favourites – Enterprise and LASMO – heavily supported towards the close.

The latter, sold down to 438p at one point, rallied to end the day 10 higher at 454p, while the former jumped from the 468p ruling early in the day to close a net 9 up at 484p. BP "old" settled 4½ firmer at 257p with 4.7m traded while the "new" added 2 at 62½p on turnover of 6.1m.

The latest hike in interest rates coupled with the strong opening on Wall Street gave a boost to the clearing banks. Lloyds rose 7 to 310p on turnover of 2.6m while NatWest added the same to 572p and Barclays and Midland 4 apiece to 410p and 440p respectively.

TSB attracted strong support ahead of Thursday's interims and hardened 2 to 107p; Citicorp Scrimgeour Vickers issued a "buy" recommendation on the stock forecasting "superior profit performance over the next five years – we expect it to make over £1 bn in 1992."

The day's only new issue, sports and leisure footwear specialists Hi-Tec, had a disappointing debut after opening at a 3 point premium to its offer price of 160p. The subsequent lack of buyers wiped out the early gains and the stock eventually closed down 2 at 158p.

Brewery stocks continued to find little buying support and marketmakers concentrated on taking turns in dealing with each other. Grand Metropolitan was a late highlight amid rumours that it might purchase part or all of Goodman Fielder's stake in Ranks Hovis McDougall. The shares put on 6 to 510p in turnover of 1.2m.

Vaux continued to be a strong market, adding 4 to 604p as new buyers took a chance on stale bid speculation. Allied Lyons fell to 419p in early trading, but later recovered to close a penny down at 424p. Activity in the traded options market suggested that bid hopes had not entirely disappeared.

BCI raced up 14 to 435p on turnover of 1.3m shares as the company confirmed recent market stories that it is raising its cement prices by £2.65 a tonne owing to the increase in demand for cement in Europe.

The Stores sector is currently enlivened only by the major takeover-speculation stocks Boots, Harris Queensway and Storehouse. Otherwise the outlook for the sector is said to be gloomy, backed up by yesterday's County NatWest WoodMac retail seminar which warned of rising rents and rates for high street stores. In an attempt to introduce some optimism two of the leaders hosted presentations yesterday, Next with City institutions, and Burtons at a lunch with Sir Ralph Halpern in Edinburgh. Neither had much effect on the market, however, as Next improved just 1 to 255p and Burtons dropped by the same margin to 227p.

Stead & Simpson continued to fall after the board's rejection of Clayform's £108m bid, the "A" shares closing a further 8 down on 128p. There was early turnover in Sears after a 1m bargain at 120p, but in later two-way trading marketmakers appeared to be pushing the price down so they could buy the stock back at around the 114p mark. In the end S&S remained unchanged on 115p.

British Telecom added 1½ at 254½p on turnover of 3.6m that included a single trade of 1.7m at 254p. The Kleinwort Grieveson "buy" recommendation continued to boost Atlantic Computer, up 4 more at 360p. Holmes Protection jumped 5 to 116p as Chase Manhattan Securities issued a "buy" note on the stock.

Increased full-year profits and a confident statement on prospects boosted A.Cohen 60 to 650p.

S & W Berisford gradually recovered from a lower opening level of 339p, influenced by better-than-expected interim profits, to close a net 6 higher at a year's peak of 351p. Tate & Lyle gained 10 to 814p and Unigate 7 to 322p while bid speculation raised Dalgety 9 to 327p.

Boosey & Hawkes slipped back in a thin market to close 10 off at 185p while Stanley Leisure lost 5 to 240p; the annual results of the latter are scheduled for July 20.

Boots rose strongly as bid rumours resurfaced – Hanson Trust was mentioned as a possible predator. The shares put on 7 to 235p in turnover of 2.4m. Dealers said one US house had been buying the shares last week and there was activity yesterday in the traded options market. Yale & Valor responded to Monday's rumours by adding 10 to 331p. A bullish annual report helped sentiment. Shares in Williams Holdings were 4 better at 297p.

British Aerospace climbed 8 to 407p as early judgement suggested that pilot error may have been responsible for Sunday's air crash in France. Dowty firmed 3 to 202p after Monday's figures, while Evered Holdings put on 5 to 118p as dealers hoped for news of expansion plans.

Publishing and printing issues to achieve high points for the year included Home Counties, up 13 at 355p, and Bemrose, which rose 5 to 222p. Agency Lopex continued to rise on hopes of a European approach, closing 13 higher at 233p.

The leaders in property had a good day with MEPC up 6 to 548p after Far Eastern buying and a late-afternoon recovery in the dollar. Hammerson "A" were 7 better at 644p and Land Securities 6 firmer at 577p, the latter on the back of a strong BZW buy recommendation.

Laing Properties was the best performer in the sector after buying a major property portfolio from Scottish Provident for £18m. The acquisition, which included offices in the West End, Edgbaston, Reading and Aberdeen and a string of warehouses in the Midlands and North, impressed the market and Laing hardened 18 to 490p.

Courtaulds regained ground to 333p, up 7, and Atkins Bros. shares retained their forward momentum to end 5 higher at 330p following news that Charterhall had increased its stake to 8 per cent. Readicut advanced 6 to 81p and higher interim profits saw Robert H.Lowe nudge higher to 195p but a disappointing preliminary statement brought Lister down 5 to 120p.

Overseas Traders were busier than of late as Harrisons & Crosfield rose 3 to 671p on rumours that it would be promoted to the FTSE 100 and Inchcape improved 7 to 210p after BZW upgraded their 1988 profit forecasts by £14m to £138m. Chase Manhattan were rumoured to be big buyers of the stock after a recent circular from their analysts stated that Inchcape were due for a re-rating and predicted that the price would soon reach 240p.

At the end of an average day on the Traded Options Market 20,769 calls and 10,336 puts were moved to total 31,105 contracts. Cable & Wireless saw good business with 3,260 calls, while British Gas were popular with 2,174 puts and 679 calls.

FINANCIAL TIMES STOCK INDICES

	June 28	June 27	June 24	June 23	June 22	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	88.08	87.98	88.45	88.82	89.15	90.41	91.43 (18/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.61	97.61	97.83	98.02	97.99	97.04	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1477.4	1468.1	1494.9	1496.7	1496.5	1784.6	1496.7 (23/6)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	210.7	211.0	213.3	214.1	215.7	380.7	312.5 (7/1)	195.4 (13/5)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.49	4.53	4.45	4.44	4.45	3.21				
Earnings Yld. %(full)	11.52	11.62	11.40	11.38	11.14	7.74				
P/E Ratio (net)(*)	10.58	10.49	10.69	10.71	10.69	15.90				
SEAQ Bargains (5pm)	23,905	26,221	24,338	28,183	24,746	47,585				
Equity Turnover (£m)	-	963.61	2659.42	1537.32	1075.98	4199.79				
Equity Bargains	-	24,134	27,995	30,596	27,142	62,461				
Shares Traded (ml)	-	375.5	597.7	573.1	443.1	820.2				

S.E ACTIVITY

Indices	June 27	June 26
Gilt Edged Bargains	127.9	112.1
Equity Bargains	156.4	181.4
Equity Value	1947.7	5375.4
5-Day average		
Gilt Edged Bargains	116.2	112.0
Equity Bargains	174.6	175.6
Equity Value	2907.5	2809.4

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1458.7	1460.8	1464.1	1466.0	1466.1	1467.8	1473.9	1473.9

Day's High 1480.6 Day's low 1455.1

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.48.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

Traditional Options

- First dealings June 13
- Last dealings June 24
- Last declarations Sept 15
- For Settlement Sept 26

For rate indications see end of London Share Service

Money was given for the call of Southwest Resources, BP new, Ovoca Gold, P & O, Wyndham, Stormguard, Norfolk Capital, Kenmare, Bristol Channel Shiprepairers, Astra Holdings, Yale & Valor, Wilshaw Secs., Magnet, Edmonds, Gibbs & Dandy, Kwik-Fit and Control Secs. A call was arranged in Sandell Perkins while doubles were effected in A & M, Wilshaw Secs. and Norfolk Capital.

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (77).

BRITISH FUNDS (1) AMERICANS (3) CANADIANS (2) BANKS (1) BREWERS (1) BUILDINGS (3) CHEMICALS (3) STORES (1) ELECTRICALS (1) ENGINEERING (3) FOODS (6) HOTELS (1) INDUSTRIALS (14) INSURANCE (4) LEISURE (2) MOTORS (3) PAPERS (6) PROPERTY (5) SHIPPING (1) TEXTILES (2) TRUSTS (8) OILS (2) OVERSEAS TRADERS (3) MINES (1).

NEW LOWS (35).

BRITISH FUNDS (2) LOANS (10) BUILDINGS (1) STORES (2) ELECTS (4) ENGINEERING (1) INDUSTRIALS (4) PAPER (1) TRUSTS (1) OILS (1) MINES (3) Western Areas.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA Group	2,900	General Accident	1,200	Prudential	5,100
Allied-Lyons	2,200	General Elect.	2,800	Racal	5,600
Amstrad	395	Glaxo	881	Rank Org.	443
Argyll Group	3,100	Globe Investment	81	RMC	229
Assoc. Brit. Foods	393	Granada	1,100	RHM	3,500
BAA	1,400	Grand Met	1,200	Reckitt & Colman	446
BAT	1,900	GUS "A"	191	Redland	412
BET	2,300	Guardian R.E.	214	Reed Intl.	454
BICC	275	GKN	1,600	Reuters "B"	857
BOC	1,800	Guinness	2,100	RTZ	1,600
BPB Inds	1,000	Hammerson	204	Rolls-Royce	1,300
BTR	2,000	Hanson	9,150	Rothmans "B"	889
Barclays	1,600	Hawker Siddeley	220	Rowntree	4,500
Bass	777	Hillsdown Holdings	490	Ryl Bank Scotland	268
Beecham	1,200	IMI	1,000	Royal Insurance	941
Blue Arrow	1,300	ICI	1,500	STC	876
Blue Circle	1,300	Inchcape	1,500	Saatchi & Saatchi	154
Boots	2,400	Jaguar	944	Sainsbury	459
Brit. Airways	598	Ladbroke	3,000	Scott & Newcastle	1,600
Brit. Aerospace	1,555	Land Securities	1,100	Sears	1,700
Brit. & Comm.	664	Laporte	90	Shell Transport	923
British Gas	5,800	Legal & General	3,600	Smith & Nephew	7,300
BP	4,700	Lloyds Bank	2,600	Standard Chartered	321
Brit. Telecom	3,600	LASMO	3,000	Storehouse	1,700
Burmah Oil	1,300	Lonrho	1,700	Sun Alliance	330
Burton	2,600	Lucas	1,000	T & N	737
Cable & Wireless	3,500	MEPC	1,100	TSB	2,700
Cadbury Schweppes	2,200	Marks & Spencer	3,100	Tarmac	1,600
Coats Viyella	1,100	Maxwell Comm.	405	Tesco	3,900
Commercial Union	2,900	Metal Box	1,300	THORN EMI	519
Cons. Gold	309	Midland Bank	469	Trafalgar House	1,000
Cookson	771	NatWest Bank	827	Trusthouse Forte	2,200
Courtaulds	915	Next	369	Ultramar	1,500
Dalgety	675	Northern Foods	480	Unilever	851
Dee Corporation	1,300	Pearson	404	United Biscuits	1,000
Dixons	221	P & O	1,600	Wellcome	1,000
English China Clays	598	Pilkington	1,300	Whitbread "A"	1,300
Enterprise Oil	1,300	Plessey	730	Williams Holdings	1,300
FKI Babcock	2,600			Wimpey	2,000
Fisons	1,800			Woolworth	1,000

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	85	14	12
Corporations, Dominion and Foreign Bonds	18	13	22
Industrials	336	503	729
Financial and Properties	108	206	334
Oils	17	37	54
Plantations	1	1	12
Mines	35	74	82
Others	31	151	69
Totals	630	999	1,316

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

Tuesday June 28 1988

FIXED INTEREST

LONDON TRADED OPTIONS

June 28 Total Contracts 31,105 Calls 20,769 Puts 10,336

FT-SE Index Calls 1695 Puts 2080

*Underlying security price.

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

WORLD STOCK MARKETS

AUSTRIA | FRANCE | GERMANY (continued) | NETHERLANDS (continued) | SWEDEN (continued) | BELGIUM/LUXEMBOURG | SWITZERLAND | NORWAY | DENMARK | ITALY | SPAIN | SOUTH AFRICA | FINLAND | NETHERLANDS | SWEDEN | JAPAN | AUSTRALIA (continued) | HONG KONG | AUSTRALIA | SINGAPORE

[illegible]

CANADA

TORONTO
2pm Prices June 28

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 28

Continued from page 41

[illegible]

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES							
Boots	225	+	7	RHM	402	+	19
Brit. Aerospace	407	+	8	Rentokil	206	+	7
Enterprise Oil	484	+	9	Rotork	198	+	13
Hammerson A	644	+	7	Tate & Lyle	814	+	10
Inchcape	210	+	7	Unigate	322	+	7
Laing Props.	490	+	18	Yale & Valor	331	+	10
Legal & General	321	+	16	FALLS			
Lloyds Bank	310	+	7	Colorvision	375	−	16
LASMO	454	+	10	Dawson Intl.	287	−	7
Pearl	490	+	16	Friendly Hotels	241	−	8
Pilkington	213	+	9	Lister	120	−	6
Prudential	167½	+	10½	Smith New Court	178	−	7
				Stead & Simpson A	128	−	8

TOKYO - Most Active Stocks
Tuesday, 28 June, 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	301.36m	615	+40	Mitsubishi Heavy Ind	145.81m	865	+50
Kobe Steel	247.48m	569	+30	Sumitomo Metal	130.98m	560	+29
Kawasaki Steel	242.53m	673	+33	Nippon Mining	56.54m	698	-2
NKK	234.65m	584	+20	Mitsui Mine and Smelt	56.13m	690	+2
Kawasaki Heavy Ind	150.09m	575	+50	Toshiba	53.15m	930	+45

INDICES

NEW YORK — DOW JONES

	Jun 27	Jun 24	Jun 23	Jun 22	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2108.46	2142.96	2148.29	2152.2	2152.2 (22/6)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.63	88.85	88.74	88.59	91.25 (3/3)	86.12 (4/1)	–	–
Transport	881.57	898.89	890.68	882.77	904.12 (23/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	180.18	181.66	181.90	183.68	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2147.76 (2165.36) Low 2101.17 (2133.53)

STANDARD AND POOR'S								
Composite ‡	269.06	273.78	274.82	275.66	275.66 (22/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	310.44	316.22	317.58	318.54	318.54 (22/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	24.40	24.87	24.85	24.88	24.88 (22/6)	21.31 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	152.22	154.56	155.03	155.35	155.35 (22/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	306.62	308.49	308.82	308.59	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	389.00	391.62	391.03	390.53	391.62	331.97	455.26	54.87

Dow Industrial Div. Yield | S & P Industrial div. yield | S & P Ind. P/E ratio

TRADING ACTIVITY

[illegible]

CANADA

TORONTO

Metals & Minerals | Composite | MONTREAL Portfolio

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | ITALY | JAPAN | NETHERLANDS | NORWAY | SINGAPORE | SOUTH AFRICA | SPAIN | SWEDEN | SWITZERLAND | WORLD

[illegible]

‡ Subject to official recalculation

Closing Prices June 28

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 41

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NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
11⅞	2⅜	UtdMM				37	3⅜	3⅜	3⅜	
2¼	1⅛	UPkMn				312	2	1⅞	1⅞	− ⅛
53½	25	UsairG	.12	.3	9	702	35⅛	34⅝	35	+ ⅛
5¼	1⅝	USHom				948	3	2⅞	3	+ ⅛
34⅛	12⅞	USShoe	.46	2.5	26	824	18⅝	18	18¼	+ ⅛
36½	21¼	US Surg	.60	1.8	19	203	32½	31⅞	32½	+ ½
60¼	42½	USWest	3.52	6.3	10	2361	56½	55⅝	56¼	+ ½
15⅝	5⅜	UnStck				57	6	5⅞	5⅞	

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
55⅞	17½	Yorkin			18	6725	55⅞	55⅝	55⅝	
7⅛	2⅛	Zapata				43	3	2⅞	3	+ ⅛
37	13½	Zayre	.40	2.0	11	1578	20¾	20⅜	20½	− ⅛
16⅛	8⅜	Zemex	.40	3.2	16	4	12⅛	12⅛	12⅛	
33⅝	10	ZenithE				3744	27⅝	26½	26⅝	− 1⅛
10⅛	10	Zenin n	.05e	.6		116	10⅛	d 9⅞	10	− ⅛
10⅝	1	vjZenLb				647	1⅛	1	1⅛	
24	13½	ZenNtl	.80b	3.5	11	116	22⅞	22¾	22¾	
20⅝	11⅞	Zero	.40	2.7	14	154	15⅛	14¾	15	+ ½
30⅛	15	Zurnin	.68	3.3	13	95	20¾	20⅜	20¾	+ ¼
11¼	7⅝	Zweig	1.05e	9.5		410	11	10⅞	11	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Closing Prices June 28

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 28

[illegible]

Continued on Page 39

AMERICA

Advancing Dow disregards further decline in dollar

Wall Street

EQUITIES and bonds reversed some of Monday's substantial losses yesterday as the dollar shrugged off a round of central bank intervention, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed 22.41 points higher at 2,130.87. Volume was fairly moderate with 152m shares changing hands.

Monday's headline volume figure of just over 264m shares was the fourth highest this year but the bulk of that activity was related to dividend capture strategies. A lack of genuine institutional participation in the market, coupled with the very large flows associated with technical trading strategies, is making the market volatile but there is no clear underlying trend.

The US Treasury bond market was weak initially in the wake of co-ordinated central bank intervention against the dollar in Europe, which followed modest intervention by the Federal Reserve on Monday.

However, prices then bounced back and were quoted around ¾ point higher in late trade. The Treasury's benchmark 30-year issue stood ⅜ point higher to yield 8.877 per cent.

Traders in both markets attributed yesterday's price gains mostly to bargain-hunting after sharp falls in recent trading sessions. The Dow Jones Industrial Average had fallen nearly 44 points in the last three sessions with bonds rising sharply.

The dollar's resilience despite central bank sales of the US currency was a key positive factor.

Some of the fundamental worries which have undermined prices recently remain in place, however. One is international interest rates. There is speculation that West Germany may raise its discount rate this week, base lending rates were raised again in Britain yesterday, and Japan is known to be concerned about its economy overheating.

As long as the dollar remains on a rising note, the negative effect on US securities markets of higher interest rates overseas can be offset. Considerable flows were attracted into both US bonds and equities in the last week when the dollar was rising.

However, that buying seemed to dry up on dips in the dollar and was never backed up by domestic demand for US securities. The lack of domestic interest – which is not helped by the currency gains inherent in a rising dollar – has meant that sharp price rises have not been sustainable.

The markets will be watching today's meeting of the Federal Open Market Committee for any clues to monetary policy. There is believed to be a reluctance at the Fed to raise interest rates further, partly because of worries about the health of the banking system. There is a delicate balance to be struck between encouraging continued growth, particularly in election year, and heading off higher inflation.

Inflation indicators are the other market obsession, with bond prices tracking fluctuations in the Commodity Research Bureau's futures index extremely closely. Yesterday, the index dipped slightly at midsession after Monday's 5-point surge which gave modest encouragement to bonds.

All these concerns about international exchange rate and interest rate policy and the domestic growth versus inflation dilemma will probably mean volatile and directionless US securities markets for the foreseeable future.

Among featured shares yesterday was Data General, which was subject to intense takeover speculation after an analyst at First Boston said in a research note that Data General could be an attractive hardware partner for Unisys. Its share price rose $1⅞ to $24 while Unisys dipped $⅛ to $36. Unisys stock was also in focus because government investigators are examining whether a top navy official helped the company secure lucrative navy contracts.

Gillette added $1⅞ to $39, also on takeover speculation. Shearson Lehman raised its investment rating, predicting another attempt to take over the company this year.

Management Science America jumped $3⅝ to $11⅛ in over-the-counter trading after the company said it had received and rejected a takeover offer of $11.50 a share from Computer Associates International, which added $⅜ to $29¼ on the NYSE.

Canada

IN MODERATE late trading share prices extended their gains in Toronto, with energy issues leading the advance.

The composite index rose 23.4 to 3,435.2 as advances outpaced declines by 405 to 146 on turnover of 20.7m shares.

Optimism on Wall Street about the US economy is helping Toronto stocks, said Mr Jack Stacey, an analyst at Moss Lawson and Co. "There has been some concern about the inflation cycle heating up, but now people are inclined to believe that the Fed's not going to let that happen," Mr Stacey said.

Oldest bourse sets sights firmly on full automation

THE AMSTERDAM Stock Exchange is the oldest bourse in the world that has traded continuously, starting around 1602 with a public offering of shares in the Dutch United East India Company.

From early on, it was an internationally oriented bourse, and today more than half of its 429 stocks are foreign.

The market is currently the sixth biggest in Europe in terms of capitalisation, coming after Milan and just ahead of Stockholm, according to brokers James Capel. Five leading companies –

MARKET PROFILE

Amsterdam

Royal Dutch (Shell), Philips, Akzo, Unilever and Hoogovens – account for half of the market capitalisation of Fl 176bn ($86bn).

The trading day begins officially *at 10 am, running until 4.30 pm,* and shares are freely tradeable. Trading in Royal Dutch, Unilever, Philips, Akzo and KLM Royal Dutch airlines continues for a further six hours in the evening.

Share volumes are picking up but still lie about 19 per cent below last year's average. In the first five months of this year, daily turnover has averaged Fl 450m in stocks. Bond trading, meanwhile, has soared by 80 per cent over last year, *with an average Fl 933m* worth of bonds traded daily.

The main market indices are the ANP-CBS general market index, which covers 44 stocks but is 60 per cent weighted towards Royal Dutch, and the CBS trend index, which is more proportionately spread over 34 stocks and is calculated and readjusted more frequently.

Since the start of this year shares have risen by 24 per cent and the ANP-CBS general stock index now stands at 259.6, about even with levels immediately after last October's crash.

Over the past three years the stock exchange has witnessed a "rolling big bang" in which a block-trading market has become operational, commissions have been slashed and trading hours have been lengthened.

Unlike London, however, Amsterdam remains a central *marketplace where prices are set* on the floor. Nevertheless a number of market participants and observers believe off-floor pricing is inevitable.

Computerisation is under way with the aim of achieving fully automated *floor trading,* backroom processing and information flows between *hoekmen,* or floor market-makers, and banks and brokers. The project is to be completed by September, with software models and know-how provided by the *Midwest Stock* Exchange of Chicago.

Banks still control much of the market although stock brokers are gaining market share.

On the settlement side there are great variations, but settlement must occur *within 10* business days. About 80 per cent of securities are delivered by a computerised book entry system operated jointly by the stock exchange, central bank and banks.

Investors face no restrictions on the foreign ownership of stocks or bonds and, on the tax side, pay a 25 per cent withholding tax on stock dividends, but nothing on bond interest.

At no time are investors required to disclose the number of shares they have acquired on the bourse, even in order to make a bid for the rest of the company.

Listed shares may carry full or limited voting rights, depending on each company's statutes, and a plethora of other anti-takeover devices can severely limit shareholders' rights.

Next to the official market, the Amsterdam Stock Exchange also operates a market for smaller companies seeking an initial listing. Requirements for listing are more lenient. Daily turnover averaged Fl 5.75m in May. No bonds are listed.

● A profile of the Swiss markets appeared in yesterday's paper. Paris will be featured tomorrow.

Laura Raun

STOCK MARKET FACT CHART
AMSTERDAM

Market capitalisation: Fl 175.9bn ($1=Fl 2.05; £1=Fl 3.49)
Number of shares listed: 429
Top 5 stocks, percentage of market: 49.9%
Trading hours: official – 10am-4.30pm; after hours – six hours
Average daily turnover, 1988: Fl 450m
Main indices: ANP-CBS general index, CBS trend index
Current level of index (CBS): 91.6; 1988 high: 92.4 (24/6); 1988 low: 67.3 (4/1)
Settlement: within 10 business days after transaction

Address: Amsterdam Stock Exchange, Beursplein 5, PO Box 19163, 1000 GD Amsterdam. Tel: (31 20) 23 97 11.

ASIA

Turnover soars as investors focus on quick profits

Tokyo

THE UNCERTAIN market outlook prompted speculative trading for quick profit in Tokyo yesterday. Share prices fell in hectic trading, while volume was the fourth largest ever, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average dropped for the third consecutive session, losing 36.92 to 27,398.09 after moving between a high for the day of 27,443.70 and a low of 27,177.54.

Turnover swelled dramatically from the previous day's 941m to 2.5bn with trading focusing on giant-capital steels, shipbuildings and heavy electricals. Declines led advances by 625 to 299, with 133 issues unchanged.

The US dollar fell back below Y131 on the Tokyo foreign exchange market. Investors were disheartened, however, by a plunge in bonds and equities on Wall Street overnight and persistent concern over higher interest rates in Japan and abroad.

Yesterday was the first day of trading for July settlement, and securities companies, business corporations and individual investors sought large-capital stocks. Such issues dominated the list of 10 most active issues, together accounting for 63.9 per cent of volume.

One official at a big brokerage house said market participants were buying in the belief that *they have little choice but to seek* large stocks for quick capital gains in view of the uncertain market outlook.

The start of trading was weak, but later most early losses were recouped on strong buying of steels and *other giants.*

The big five steelmakers rose across the board: Nippon Steel headed the active list, with 301.4m shares traded, climbing Y40 to Y615. Kobe Steel, second busiest with 247.5m shares, rose Y30 to Y569; Kawasaki Steel, third with 242.5m shares, Y33 to Y673; NKK, fourth with 234.7m shares, Y20 to Y584; and Sumitomo Metal Industries, seventh with 131m shares, Y29 to Y560.

Stimulated by the performance of steels, big-capital electricals drew interest, with Toshiba gaining Y45 to Y930 and Mitsubishi Electric Y32 to Y845.

In contrast, high-technology and domestic demand-linked stocks were sold. Matsushita Electric Industrial closed down Y20 at Y2,470 and Toyota Motor Y30 at Y2,240. Some high-techs later recouped losses on late small-lot buying, with NEC ending unchanged at Y2,050 and Sony at Y5,070.

Bonds rebounded strongly, despite the Bank of Japan's tolerance of a rise of 0.0625 percentage points in the three-month commercial bank discount rate.

Osaka Securities Exchange equity prices kept falling, with the OSE stock average slipping by 156.59 to 27,125.99.

Australia

A LAST minute buying spree by local investors took prices off their lows but failed to offset fully the effects of falls in prices for oil and precious metals. The All Ordinaries index lost 22.6 to 1,544.6.

The sharp overnight decline on Wall Street and the slide in Tokyo also hit sentiment.

Hong Kong

THE FALLS in New York and Tokyo and fears of higher local interest rates sent shares lower in slightly thinner trading.

The Hang Seng index shed 28.2 to 2,661.46 after weakening during the morning session, picking up slightly at midday and drifting lower again during the afternoon. Turnover eased to HK$1.1bn from HK$1.5bn.

Singapore

INVESTORS who moved in to pick up bargains in afternoon trading helped shares to end mixed after a weaker start. The Straits Times industrial index edged up 1.66 to 1,079.61 in turnover of 47m shares, up from 44m.

Movements were small, and most activity was again seen in Malaysian speculative stocks and second liners.

EUROPE

US losses add to interest rate blues

ANXIETY over the upward trend of interest rates and the setback on Wall Street dampened share prices and volume in most European bourses yesterday, although foreign investors showed some interest in Swiss and Belgian stocks, *writes Our Markets Staff.*

FRANKFURT continued its downward drift in slow trading, with many investors sidelined in the run-up to tomorrow's Bundesbank council meeting.

There is much debate about whether the central bank will raise the 2.5 per cent discount rate then or wait until it has raised the securities repurchase rate further, possibly early next week. But the consensus is that interest rates are heading upward, and this, together with Wall Street's losses on Monday and yesterday's concerted intervention to curb the dollar, left most investors unwilling to test the water in the equity market.

The FAZ index finished 5.71 lower at 469.68 although shares picked up in the after market when Wall Street opened firmer. Volume was about DM2bn.

Electronics stock Nixdorf fell DM12.40 to DM454.60 following a negative article in a West German management magazine.

Cars showed larger losses than most, with Daimler down DM10.50 at DM633 and Porsche DM17 lower at DM502, while VW, which announced 770 job losses over the next three years, was off just DM1 to DM260.50.

Bonds were boosted sharply by the dollar's fall after the round of central bank intervention. The 6¼ per cent 1998 federal bond rose 60 pfg to yield 6.66 per cent after 6.73 per cent on Monday.

London

THE half-point rise in UK base rates was welcomed by the market yesterday, amid hopes that it will keep inflation in check and sterling steady.

An initial 13-point fall in the FT-SE 100 index vanished, and the index closed 15.4 higher at 1,856.8. The stronger opening on Wall Street also encouraged buying.

International stocks reacted favourably to the interest rate increase, and Glaxo, ICI, Beecham and Reckitt & Colman all rose. Hanson attracted US interest and recovered to end the day just slightly lower.

PARIS fell further on profit-taking amid concern over interest rates and the drop on Wall Street, with volume again low.

The rise in UK interest rates, and fears of the same in West Germany, fuelled concern that the brakes would be put on rate cuts in France. The EFX 50 index closed 3.55 lower at 349.77.

Turnover, estimated at about FFr800m, was affected in part by technical difficulties. No prices were available for the 13 blue chips underlying the Monep options market and so there was no domestic trading in such stocks as Accor, CGE, Elf Aquitaine, Suez and St-Gobain.

Most of the corporate news surrounded the unquoted blue chips, with Suez forecasting a 30 per cent increase in parent company net profits this year and CGE issuing a convertible bond issue worth about FFr1.75bn. Some London dealers made prices in the stocks, which closed mixed, according to one salesman.

Club Méditerranée dropped FFr8.50 to FFr470 after Monday's news of an expected sharp fall in interim profits, and Béghin-Say, one of the day's most active stocks, fell FFr5 to FFr475, having risen sharply before Monday's annual meeting where it forecast a doubling of group turnover this year.

MILAN eased in line with other European markets as investors awaited developments from Generali's annual shareholders' meeting yesterday and the Fiat AGM scheduled for today. The Comit index shed 4.44 to 506.86.

There was some selective buying by domestic mutual funds, eager to keep prices firm before their books close for the half-year at the end of this month.

Generali fell L1,650 to L86,000 and continued down to L85,700 after hours. The meeting approved the L1.1 trillion (million million) capital increase as expected, and Generali disclosed it had spent L599bn on its direct 8.5 per cent stake in Midi of France. There was little news, however, *on future strategy over Midi.*

Fiat eased L62 to L9,289, but Snia, its chemicals and defence holding, rose L74 to L2,265.

ZURICH was depressed by the overnight falls in New York and Tokyo and the declining dollar.

However, *demand from foreign* buyers was good and shares rose above their lows. Union Bank bearers were unchanged at SFr3,075, while Crédit Suisse eased SFr45 to SFr2,520.

AMSTERDAM reacted to Wall Street's higher opening and a local rebound in the dollar with a small rise towards the end of trading. Elsevier, the publisher, gained Fl 1.70 to Fl 60.20 on renewed takeover rumours.

MADRID closed lower on profit-taking, with the general index down 1.3 at 296.58 in quiet trade.

Telefónica, one of the more liquid stocks accounting for about 12 per cent of the index, eased 1.25 percentage points to 197.50 per cent of par as investors took profits after recent rises.

Banesto, which is merging with Banco Central, was suspended for not officially notifying the bourse of a Pta 7.65bn capital increase.

STOCKHOLM followed the trend on most other markets and fell slightly in quiet trading, although prices recovered from their day's lows.

One rising stock was SKF, which gained SKr9 to SKr304 amid takeover speculation.

Volvo, which *announced* that its aircraft engine division was planning a joint venture with a division of General Motors of the US, slipped SKr1 to SKr331.

BRUSSELS fell prey to worries about the dollar and the *overnight drop on Wall Street, as* Belgian prices ended mostly lower, but foreign interest pushed up turnover in some stocks.

Cockerill Sambre, the steelmaker, gained BFr7 to BFr233 on volume of 36,000 shares after its *chairman confirmed the company would make a profit this year for* the first time since 1975.

SOUTH AFRICA

GOLD issues in Johannesburg benefited from the rising bullion price following a decline in the dollar yesterday. They were also boosted by a further slip in the financial rand, which prompted foreign investors to buy quality gold stocks.

Demand from London was high for Vaal Reefs, up R11 at R261, Kloof, rising R1.65 to R30.15, and Driefontein, adding R1.85 to R33.60.

Mining stocks, particularly platinum, also drew strong overseas demand. Rustenburg moved up 75 cents to R37.50.

Industrial shares remained steady following continued reports of good fiscal results. Barlow Rand was unchanged at R21.50.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JUNE 28 1988					MONDAY JUNE 27 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	140.43	-2.7	121.12	115.82	3.86	144.34	125.65	117.70	150.35	91.16	133.88
Austria (16)	85.10	+1.6	73.40	79.68	2.58	83.72	72.89	79.09	98.18	83.72	86.90
Belgium (63)	119.50	+0.0	103.06	112.13	4.49	119.51	104.04	112.88	139.89	99.14	120.86
Canada (125)	127.93	+0.7	110.34	111.86	3.01	126.99	110.55	111.03	128.91	107.06	128.30
Denmark (39)	128.20	+0.2	110.57	119.57	2.43	127.96	111.40	120.13	132.72	111.42	116.73
Finland (25)	132.73	+0.1	114.47	119.19	1.76	132.57	115.41	119.94	139.53	106.78	–
France (126)	95.39	-0.1	82.27	91.16	3.56	95.45	83.10	91.90	99.62	72.77	106.81
West Germany (99)	74.55	-0.5	64.29	70.11	2.65	74.94	65.24	70.85	80.79	67.78	96.40
Hong Kong (46)	107.00	-1.3	92.29	107.14	4.27	108.43	94.40	108.57	109.20	84.90	125.83
Ireland (18)	135.83	+0.2	117.15	128.80	3.69	135.50	117.96	129.14	141.54	104.60	132.13
Italy (102)	71.42	-0.3	61.59	71.52	2.81	71.61	62.34	72.14	81.74	62.99	97.86
Japan (456)	162.52	+0.2	140.17	134.47	0.53	162.13	141.14	134.10	177.27	133.61	139.94
Malaysia (36)	152.22	+0.8	131.28	152.13	2.39	151.05	131.50	151.22	152.36	107.83	170.72
Mexico (14)	169.04	-0.8	145.79	422.31	1.18	170.38	148.33	425.67	180.07	90.07	246.53
Netherland (38)	103.87	+0.3	89.58	96.61	4.79	103.56	90.15	96.87	110.66	95.23	123.44
New Zealand (21)	79.68	-0.8	68.72	61.57	5.80	80.32	69.93	61.88	84.05	64.42	97.73
Norway (25)	122.51	+0.3	105.66	108.79	2.77	122.18	106.37	109.50	132.23	98.55	140.75
Singapore (26)	123.42	+0.6	106.44	115.63	2.17	122.71	106.83	115.50	123.42	97.99	145.59
South Africa (60)	121.36	+0.2	104.67	87.70	5.01	121.12	105.44	85.82	139.07	118.16	158.79
Spain (42)	154.97	+0.5	133.65	140.41	3.09	154.17	134.22	140.45	164.47	130.73	123.25
Sweden (35)	117.14	-0.5	101.03	107.86	2.65	117.71	102.47	109.17	125.50	96.92	113.21
Switzerland (55)	79.31	-0.5	68.40	73.55	2.32	79.67	69.36	74.36	86.75	75.60	99.11
United Kingdom (327)	132.75	+1.7	114.49	114.49	4.32	130.50	113.61	113.61	141.18	123.09	150.02
USA (576)	111.08	+1.1	95.80	111.08	3.53	109.86	95.64	109.86	112.27	99.19	124.35
Europe (1010)	106.10	+0.7	91.51	96.14	3.73	105.34	91.70	96.17	110.82	97.01	122.07
Pacific Basin (673)	159.44	+0.1	137.51	132.50	0.74	159.26	138.65	132.26	172.26	130.81	139.10
Euro-Pacific (1683)	138.13	+0.3	119.13	117.98	1.66	137.71	119.89	117.84	147.53	120.36	132.33
North America (701)	111.98	+1.1	96.58	111.15	3.50	110.78	96.44	109.95	113.08	99.78	124.56
Europe Ex. UK (683)	89.54	-0.1	77.23	84.68	3.20	89.67	78.07	85.32	92.99	80.27	104.72
Pacific Ex. Japan (217)	122.34	-1.9	105.51	107.84	3.97	124.73	108.59	109.26	128.15	87.51	128.85
World Ex. US (1882)	137.64	+0.3	118.71	117.60	1.74	137.21	119.45	117.42	146.49	120.26	132.54
World Ex. UK (2131)	126.80	+0.5	109.36	115.39	2.12	126.23	109.89	114.89	131.77	111.77	127.30
World Ex. So. Af. (2398)	127.35	+0.6	109.84	115.49	2.31	126.62	110.23	114.96	132.39	113.26	129.13
World Ex. Japan (2002)	110.46	+0.8	95.27	105.67	3.61	109.57	95.38	105.04	112.43	100.00	124.29
The World Index (2458)	127.32	+0.6	109.81	115.30	2.33	126.59	110.21	114.76	132.38	113.37	129.32

Base values Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ index), 90.791 (Pound Sterling) and 94.94 (Local).

SECTION III

FINANCIAL TIMES SURVEY

Employment is set to shift from a people-buyer's to a job-seller's market, argues **Michael Dixon.**

In many parts of the world, a shortage of young candidates, coupled with easier job-hopping between countries, will force employers to change their ways.

High-fliers on the move

TIMES ARE coming when leading spirits even of "loadsamoney" economies could well be congealed by the want of a resource that money alone cannot buy. The resource is human skills and motivation which, unlike human muscle, have never been easy for employers to obtain in sufficient quantity.

Within the next few years, however, they look bound to become scarce in many, if not most, countries of the western world. The reasons are twofold.

One part is the disappearance of youth in numerous lands in train of the plunge in birth rates that began in the 1960s. Over-supplies of young people seeking their first job, which formerly glutted national employment markets and flummoxed governments, can be expected to turn into a steepening shortage.

The second part is the move to set up one European Community market of some 320m consumers, which is scheduled to open in 1992. *What will actually happen* then is unlikely to be spectacular and may even be scarcely noticeable. Of the 285 EC agreements required to complete the preliminaries, only about 70 have been ratified to date. The Community country governments supporting the move will be relieved if a total of 200 are in the bag by the notional deadline.

Nevertheless, it seems fairly sure that the national frontiers which have for so long limited the horizons of people's careers will be more and more worn away. The outlook for employers is increasingly wider competition for able staff of all ages even though its sharpest edge may be in the market for youth.

It is true there will probably be compensating influences. One example, of greater potential relief to private sectors than to public services, is the currently widespread ambition among young people to work as business managers. In the UK, for instance, the strength of that ambition is shown by the number of teenagers now eager to take degree courses in management at a university or polytechnic.

Demand for such courses, in *terms of applications to take* them, is far higher than for any other subject. The 1987 figures for the top 10 subjects, adjusted somewhat arbitrarily to allow for differences in universities' and polys' rules for application, are:

Management	21,350
Law	15,600
Medicine	7,950
English	7,450
Psychology	7,300
Computer studies	7,250
Geography	6,550
Economics	6,550
Pharmacy	6,200
Biology	6,050

Only *a minority of candidates* are admitted, of course, and the admission rate for applications in management was low: 21 per cent compared with 41 in English. But the fashionability of managerial work among the young is clear. Moreover, it is a vogue that seems international.

The status of the manager is high and rising in countries such as Switzerland, Sweden and West Germany where management was customarily viewed as a subsidiary task, albeit an important one, done by people who were primarily engineers, financiers and suchlike. Even in the US where, as in Britain, management *has long* been regarded *as a* self-standing job, it is growing in social esteem.

Something else which may take some of the edge off the competition for able recruits is the trend among companies towards reducing their full-time staff to the minimum "core" directly required to provide and sell the products, and to manage those central operations effectively. Even so, it would be hazardous for employers to expect such cushioning factors to secure their future needs of human skills.

The youthful vogue for managerial careers, especially, cannot be relied on *to last. Commentators* who contrast the materialist urges of students today with the socialistic ideals of those 20 years ago, overlook the half-way stage that occurred in between. By the late 1970s the socialist spirit had given way in many higher educational institutions to a curious mixture of fierce feminism and religious enthusiasm of revivalist kind. Rising generations switch fashions fast, and before youth is in its shortest supply five to seven years hence, materialism is likely to be replaced by goodness knows what.

Neither can the cutting of full-time workforces be counted *on to ease recruitment problems* much. One of its concomitants is that companies are handing over tasks previously done by full-time staff, including various specialist aspects of personnel work and computer-system activities, to people brought in on a temporary basis or to external *specialist* consultancies.

Leading employment agencies are consequently expecting the secretarial and clerical workers on their books to be joined by growing numbers of higher graded specialists. Some agencies are planning to heighten their charms to such people by offering personal career-development programmes built of a series of short-term assignments.

Such moves might quicken the increase in temporary executive-type staff, so far due largely to payroll-cuts by employers, as people opt for a varied working life with attractions further enhanced by easier job-hopping between countries. Companies in turn could find it harder to maintain even an essential core of regular employees.

Perhaps the happiest effect of the coming changes will be to increase opportunities for ethnic minorities as well as women. What is more, it will no longer be dangerous, as it has increasingly been over the past few years, to *reach the age of 40. Experience,* even though it may be slower in reaction time and more sceptical of top management's infallibility, will come back into its own.

All of the foreseeable changes must surely combine to raise the importance of the whole gamut of processes entailed in finding, recruiting, developing and keeping requisite human skills. Helping those no longer needed to find other employment will also be significant since organisations with a reputation for treating *their discards unfairly* will have a weakness in competing for new hands.

"Person-power" forecasting and planning services can be expected to be in growing demand to sharpen employers' awareness of their future requirements of skills, and where in the expanding landscape they may best be obtained.

Effectiveness in making contact with good potential recruits, whether by advertising or executive search methods, will be of *the essence too.* There will *also* be increasing premiums on accuracy in selecting the candidates best equipped to do the jobs that become open, and on divining what mix of pay and fringe benefits will most economically to persuade promising people to join and stay and work well.

Given the likely greater reliance on the hiring of executive-grade staff on short-term contracts, accurate selection will be crucial not only for pulling the right skills in but for keeping the wrong ones out. Otherwise the future could be golden for industrial espionage. John Mole, a former senior bank executive turned author who writes in this survey, worked as a temporary clerk in 11 companies mainly in the City while gathering material for a recent book. He says he was staggered by the competitively sensitive *information* he was *unable* to avoid picking up.

The increasing importance of expertise in all the workforce-building processes discussed in this survey, forms a cross-current with *another* of the trends. It is companies' transition from empire-building to empire-demolition by pruning their specialist full-time staffs, not least in the personnel field.

Meanwhile, however, an expanding supply of the expertise is available from consultancies *and agencies big and small. And* although the growth of the "middle-man" sector of the human resources has hitherto been mainly entrepreneurial and higgledy-piggledy, a marked change of character may well be in the offing there too.

In the agency part of the sector especially, the erstwhile secretaries and clerical workers who built up a business by their flair for wheeling and dealing, have been handing over to chief executives with a more deliberate approach. *Hence the so-called* professional services industry as a whole looks a candidate for consolidation and tidying up on an international scale of the kind which in some of its sub-sectors is already going on.

It is to be hoped – for there is no certainty of it – that the professionalisation of the management of professional services will bring about greater professionalism in the workforce-building processes too. It would surely be hard to find a task more important to a society, let alone an economy, than ensuring that the most decisive jobs are given to the people best equipped to do them. But to date it has been one of the tasks which have on the whole been carried out least well.

John Batten

Recruitment
AND PERSONNEL SERVICES

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Headhunting

What's topical may not be typical

FEW SOUNDS are sweeter to ambitious ears than the courting call of an executive search consultant. The mere idea of being personally sought out to consider new jobs has far more charm than the chore of pursuing them by hawking one's services in reply to advertisements.

Besides being more appealing to managers and key specialist workers, the idea of headhunting has an air of mystery, if not skulduggery, that intrigues the media. So a top opening to be filled by search methods is apt to grab more column inches and broadcast seconds than any post being openly advertised.

Even so, it would seem to be yet another example of what is topical not being typical. For when it comes to appointing people to executive positions, search remains in minor use, at least in relatively compact countries such as Britain.

Estimating the extent to which different methods are used to fill jobs is a chancy business. In the case of most managerial rank appointments, the gathering of reliable information on them is ruled out by the very nature of the way they are made. That applies not only to headhunting, which is deliberately done under cover, but to internal promotions which almost certainly account for most – although no one knows how many - of the higher-grade posts changing hands.

The information famine, of course, also bedevils attempts to determine what share search takes of the relative minority filled by external recruiting of whatever kind. But with the aid of figures cited by close observers respectively of US and UK headhunters' activities – Mr James Kennedy and Dr Stephanie Jones, whose articles appear below and on the opposite page – we can arrive at some sort of guesstimate for the British market.

Search itself can be divided into two sorts. One is the so-called retainer variety, in which the headhunters are sure of a good part of their fee even if they fail to produce a person who is given the job. In the other sort, entitled contingency, the headhunters receive no fee unless one of their candidates fills the bill.

Mr Kennedy calculates that in the US, the top four search consultancies take some 20 per cent of total revenues for the retainer activity which amount to about $1bn, with contingency work producing roughly as much again. Hence the top four account for about 10 per cent of all headhunters' billings.

Dr Jones, for her part, estimates the combined 1987-88 fee income of the top four search operations in Britain at £21.3m. So if Mr Kennedy's observation about the US market were true also of the UK – which is of course far from sure - the total fees for British search activities would have been £213m.

To translate that sum into numbers of job-openings handled requires two more observations to be called into play. The first is that headhunters usually set their fee at about 30 per cent of the salary of the person who is eventually appointed. The second is that they tend to be used to fill higher-paid posts such as directorships requiring people with above-average success in their career. An example might be the better rewarded class of director as described by the latest study of UK executives' pay made by the Remuneration Economics consultancy for the British Institute of Management.

The survey found the salary of such directors to be typically about £47,000, in which case a search consultant's 30 per cent fee for finding one would be £14,100. Dividing that into the £213m figure for total 1987-88 revenues for UK provides a hazy estimate of the overall number of job-openings they handled: 15,106. The probability is that it is an overestimate, not least because a good deal of the headhunting done is for jobs in the City of London finance sector where £47,000 would be a modest salary for a senior-level post.

The parallel task of divining the number of higher-rank jobs filled by advertising is fortunately less dependent on the making of airy assumptions. The reason is that every three months since the start of 1959 the MSL recruitment consultancy has made a count of the number of managerial and key specialist posts advertised in leading UK journals. As the table in the accompanying panel shows, the count for the 12 months to March 31 this year was 37,342 jobs - well over twice as many as the guesstimate suggests that headhunters handled.

Once again, the comparison probably exaggerates search's share because the MSL count misses executive posts advertised solely in local papers and, more importantly, the specialised press. For example, one field in which UK specialised journals have a strong hold on job advertisements is personnel management.

Although it seems clear that the personnel function cannot be far behind areas such as production in generating a need for recruits, personnel posts offered through national journals account for only 3 per cent of MSL's latest 12-month tally.

Another field missed by the tally, and from which search is excluded, is recruitment of key specialists for short-term assignments. While the temporary hiring of higher-grade staff is at present relatively rare except in computing work, the trends discussed in the introductory article suggest it is likely to increase. And even if the employers concerned obtain their new professional temps largely through agencies, the agencies themselves will mainly have to find them by advertising. It may therefore be that search will lose some of the minority share of the market it now has.

If so, it will have done nothing intrinsically to deserve it. For as a method of identifying promising candidates it has certain advantages which cannot be denied even though to date they are often obscured by myths. A prominent one – that the advantage of headhunting over advertising grows with increasing rank of job to be filled – probably arises from search's origins about 40 years ago in America, whence it spread into Europe a decade or so later.

Since a prime concern of organisational chieftains is that anyone working close to them is somebody they can personally trust, they may often be nervous of having their right-hand people found for them through the nuts-and-bolts personnel department. The birth of headhunting offered them a suitably confidential alternative channel and, perhaps as a result, the early searchers tended to be directly hired by and responsible to companies' topmost people for finding candidates for high-level posts.

It may be that the specialist managers of the time rather welcomed the intrusion. The reason lies in another trait of organisational chieftains. Even though they themselves make the final decision on the most senior appointments, when one goes wrong they tend to blame whoever put forward the initial candidates.

In later years, however, there has emerged a new breed of more politically astute personnel managers who see the headship of the specialist department merely as a launching pad to better-paid things. Moreover, they are aware of the importance of amassing personal power as fuel for the journey. As the new breed have arisen, they have increasingly pulled down the prerogative of hiring and supervising searchers into their own hands. So instead of hobnobbing with top executives – who are apt to have no closer understanding of recruiting than tribal chiefs have of witchdoctery – headhunters are more and more subject to the control of personnel professionals no less well versed in the craft.

It is to be hoped that one result of search's descent to the same level as other ways of recruiting executives is greater rationality in deciding which method is best suited to filling what job.

For on a rational analysis, none of the recruitment methods would seem of its nature better than the others in its ability to bring in high quality people in general. The truth is that each has its peculiar strengths and weaknesses which make it most suited for use in particular circumstances, to which the rank of a job may well have little if any relevance. And the sooner that truth is grasped by every employer, the better.

Michael Dixon

Good omens for UK job-seekers

ADVERTISED DEMAND FOR EXECUTIVES IN BRITAIN IN THE 12 MONTHS TO MARCH 31

Type of work	1987-88 Posts advertised	1987-88 Change from 86-87 %	1986-87 Posts advertised	1986-87 Change from 85-86 %	1985-86 Posts advertised	1985-86 Change from 84-85 %	1984-85 Posts advertised	1984-85 Change from 83-84 %	1983-84 Posts advertised	1983-84 Change from 82-83 %
R & D	3,510	+ 3.9	3,378	−42.0	5,823	−22.6	7,527	+ 5.4	7,139	+26.6
Marketing	6,373	+ 4.1	6,124	− 5.0	6,447	− 0.8	6,502	− 3.2	6,718	+14.2
Production	6,242	+29.9	4,807	−23.8	6,311	−12.1	7,178	+15.5	6,217	+36.3
Accounting	7,795	+15.8	6,732	+ 5.2	6,401	+ 2.2	6,261	+11.6	5,611	+29.4
Computing	3,710	+ 0.7	3,686	− 7.8	3,998	− 6.7	4,287	+34.1	3,196	+34.6
General mgt.	1,659	+19.8	1,385	+ 6.0	1,307	+ 4.0	1,257	− 5.1	1,325	+ 3.4
Personnel	1,117	+11.1	1,005	+15.5	870	−19.8	1,085	+13.4	957	+40.5
Others	6,936	+20.9	5,735	− 6.9	6,162	− 0.8	6,214	+39.3	4,460	+53.8
Total	37,342	+13.7	32,852	−12.0	37,319	− 7.4	40,311	+13.2	36,623	+27.3
April-June	8,597	+ 5.2	8,172	−21.5	10,412	+ 0.8	10,034	+20.3	8,340	+49.2
July-Sept	8,274	+ 8.0	7,664	−19.4	9,507	− 2.6	9,760	+20.7	8,086	+18.5
Oct.-Dec.	9,248	+17.8	7,850	− 8.7	8,596	− 3.3	8,893	+ 3.9	8,560	+32.3
Jan-March	11,223	+22.4	9,166	+ 4.1	8,804	−24.3	11,624	+ 9.3	10,637	+16.6

A good omen, for UK executive job-seekers at least, lies in the table above, which is compiled from the MSL recruitment consultancy's quarterly counts of managerial and key specialist posts advertised in leading UK journals. The table covers the most recent five 12-monthly periods ending on March 31 of each year. The upper and larger part shows the 12-monthly tallies for nine broad categories of staff, and the lower part gives the tally for each of the separate quarters.

The latest 12 months brought an increase in demand over the corresponding period of 1986-87 not only overall, but in every one of the categories. "Others", by the way, covers activities such as purchasing, company legal work and various advisory and consultancy roles.

As the quarterly counts show, the market is seasonal with the peak demand coming in January to March. MSL, which has been keeping its check for over 28 years, has found a typical month-by-month pattern broken only by extraordinary events such as the market's spring back from its worst recorded slump in 1981. Last autumn's Black Monday did not qualify as an extraordinary event. whatever the collapse of share prices may have meant to financial institutions, general demand for executives continued strongly as though nothing had happened.

The month-by-month pattern can perhaps best be appreciated by supposing that the market was perfectly even so that, if the yearly total were to be 1,200 posts, a uniform 100 would be offered each month. By contrast, the actual flow is:

January	124
February	104
March	106
April	92
May	99
June	104
July	107
August	84
September	89
October	110
November	111
December	70

The consultancy has also found that the demand is cyclical, with a consistent rise over a period of years followed by an unbroken fall over a similar interval. Previous experience of the cyclical swing led to the belief that the downturn which began in July-September 1985 would continue until around 1989 if not longer. But in January-March 1987 the demand denied that expectation by turning up again and has since continued increasing. Although MSL's market-watchers are temperamentally inclined to caution (they are Scottish), they are now conjecturing that the cyclical pattern has somehow shifted to a higher threshold. If so, the rise in demand could well go on to beat the calendar-year record of 40,139 jobs which was set in 1983.

A further encouraging sign, masked by the fact that the table's quarterly figures do not separate out the categories, is that the strength of demand is not only for financial and accounting executives. The 2,081 openings advertised in January-March this year for production managers was the highest tally for them in a single quarter since 1966.

Stephanie Jones looks at the leading executive search firms

Top of the pecking order

HEADHUNTING in Britain was born in the 1960s, grew up – rather unsteadily at first – in the 1970s, and confidently celebrated its coming of age in the Big Bang era.

Now – more respectably and appropriately referred to as executive search – it has achieved a new maturity. The leading executive search firms, jostling for position throughout the 1980s, have consolidated their particular market shares, and established a distinct pecking order.

This development has occurred in parallel with the commercialisation and regrouping of the professional services, especially in the polarisation of the accountancy business with the emergence of eight major accounting firms.

In the same context, and coincidentally also eight in number, Britain's leading search firms are now clearly identifiable, each with its own brand image and individual business culture.

Russell Reynolds, opening in New York in 1969 and in London in 1972, leads the British market by adapting to the indigenous business climate while retaining its dynamic American approach. Recent expansion has been due to its proven expertise in financial services when headhunting demand in this sector was reaching unprecedented heights. This enabled the firm to survive the mass defection of four consultants in 1982-3, led by David Norman, veteran of the historic hunt for Ian McGregor on behalf of British Steel in 1980.

The firm's elitist image, carefully nurtured by Reynolds himself – still a major shareholder and dominant personality in the firm – has been successfully transplanted and taken root in British soil. Roddy Gow, the London managing director – ex-Trinity College, Cambridge, the Scots Guards and Barclays Bank – is very much the British equivalent of a New York Ivy Leaguer. Financial services are still the firm's bread and butter, with 62 per cent of 1987 assignments in commercial, merchant and investment banking.

Russell Reynolds is the only search firm with a well-developed internal career progression system, and has by far the strongest corporate image. Although its offices are shoulder-to-shoulder with its competitors in St James's Square, the firm is distancing itself from the opposition through the strength of its ranks of consultants and its effective international teamwork. Expanding turnover without losing quality could be one of its greatest future problems.

Russell Reynolds splinter group Norman Broadbent, with Goddard Kay Rogers, are the next leading British firms. If the former is the UK equivalent of Russell Reynolds, the latter is the indigenous version of Spencer Stuart, the most true-blue of the multinationals.

Initially set up by Peter Brooke, now the Tory Party chairman, the firm has a reputation for kid-glove handling of very senior assignments

GKR, founded in 1970, was the first British firm to practise executive search on American lines by concentrating on the top end of the market, refusing to cling to management consultancy or advertising and discarding the oldboy network. Like most of the multinationals and unlike many other British firms, researchers at GKR play an especially significant role. But GKR's international network is less extensive than its rivals' and this must be expanded – especially in the United States – if it is to maintain its market share.

Norman Broadbent entered the search market in boom conditions, with apparently younger and more adventurous consultants than GKR. In 1986, within three years of opening their doors, the partners sold out to Charles Barker for a staggering £9m, keeping half the future profits. Consultants who "defect", as Norman and his colleagues did, tend to face two problems: lack of international partners for global searches, and loss of their clients. Yet Norman Broadbent has developed a sound overseas network based on links with other prestigious independent search consultancies, and clients returned of their own accord.

Sir Peter Carey, for whom Norman worked in his DTI days, re-engaged Norman last year to find Morgan Grenfell's new chief executive, John Craven of Phoenix Securities. The firm is very close to its market: Miles Broadbent prides himself on having a shrewd idea of not only who is suited to a position, but who will be interested in moving. This explains the remarkably low number of consultants and the comparatively few researchers.

Spencer Stuart maintains the lowest profile of the multinational firms. Its effective penetration of even the most conservative boardrooms is a result of its presence since 1960-61 in London and its respectable, ultra-British style.

The original Spencer Stuart founded his business in the US but, in contrast to Russell Reynolds, Lester Korn and Dick Ferry, he long ago sold out to the partners. Spencer Stuart in London – initially set up by Peter Brooke, now the Conservative Party chairman – has discreetly and subtly earned a sound reputation for kid-glove handling of very senior assignments, achieving a high level of repeat business and benefiting from membership of an international search organisation of particularly consistent quality.

The firm is well known for its painstaking research – assignments may be completed less quickly but more thoroughly than most. Spencer Stuart, like GKR, Egon Zehnder and – since 1983 – Russell Reynolds, has inspired considerable loyalty on the part of its consultants.

With its long-established position, the firm has coped with the inevitable ageing of its directors and the need for future regeneration by recruiting young blood to fit into the quietly discreet corporate mould. If the Royal Warrant were ever to appear on a headhunter's letterhead, it would be on Spencer Stuart's (though it might be too modest to make it known).

Whitehead Mann – the most secretive of all – has a style clearly dominated by its founder and largest shareholder, Dr Anna Mann, with a highly academic, research-orientated approach. Researchers equal consultants in number, and frequently become consultants in their own right. Indeed, many have thus outgrown Whitehead Mann and moved elsewhere, such as John Viney of Heidrick & Struggles, who shares Dr Mann's attitude to research.

The firm aims to build strong client relationships but, arguing that loyalty is a two-way process, does not welcome clients who employ several search firms simultaneously. Unlike most of its rivals, WM is not disproportionately dependent on financial services; Dr Mann herself specialises in CEO and NED searches, and the firm tackles a large range of management assignments, including for start-ups and fast-growing smaller companies. Whitehead Mann offers an audit and assessment service with psychometric testing, and a selection company to take on lower-level searches.

Continued on Page 3

James H. Kennedy looks at the US executive search business

They won't choose the President this way, not yet

BEHIND THE spectacular show of the run-up to the US presidential election, executive-search consultants are quietly tracking down the hundreds of staff workers who will be appointed by whoever forms the next Administration. So even though the American public has not yet entrusted "headhunters" to select the President in person, there is no denying they now play an important role in the life of the nation.

By comparison with the executive recruitment markets of countries such as Britain, the US market relies to only a small extent on advertising higher-grade jobs to all-comers. That offers a fertile field for the executive search method of first identifying a small number of people well qualified for the post, then approaching them personally about the opening. And how well the searchers have taken their opportunities is shown by the growth of their business.

It is true that uncertainties in the US economy, Black Monday and continued staff-cutting by big corporations contributed to a rather lacklustre performance last year. According to the latest poll at Executive Recruiter News of leading search companies, the rise in revenues over 1986 was a measly 13 per cent.

But set against 1984 revenues, the 1987 figures of the 23 biggest searchers show a 51 per cent increase. Within that group of 23, the largest 10 almost doubled over the same period. The message is clear: the big are getting bigger, growing faster than the rest of the pack.

A broader perspective is given by the accompanying graph which summarises the findings of our polls since 1973. In that year we identified 800 search consultancies which collectively had revenues of $150m. Growth was moderate for the next five years. Then it took off on a steep climb.

In 1986, by which time we were tracking some 1,500 searchers, the combined revenues hit $2bn. That was shared about 50/50 between the two main branches of search. The first is "retainer" work for which the consultancy gets at least a good proportion of its fee even if it does not come up with a candidate who is appointed. The other branch is "contingency" search where no fee is paid unless the job is filled.

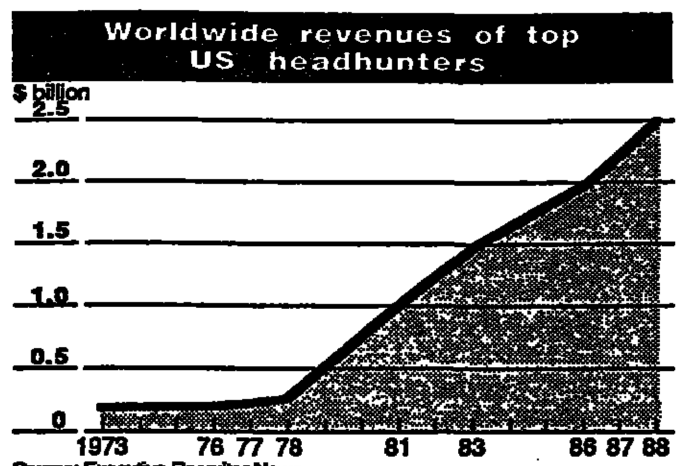
For the current year, our estimate is that the revenues will reach $2.5bn – an increase of 20 per cent on 1987. Many searchers have said that January-March 1988 was their bestquarter ever.

The biggest search businesses are getting more international. Last year, for the first time, the top 10 consultancies' $213m revenues from within the US were exceeded by their earnings outside it – $239m. Even more significantly, overseas volume for the leading 10 has more than doubled over the past three years, rising by 141 per cent compared with a growth in US billings of only 64 per cent.

There seems to be a bit of a Derby going on at the very top between two consultancies: Korn/Ferry International (in the bold red silks) and Russell Reynolds Associates (in the more patrician purples). Just a few years ago Korn/Ferry was comfortably ahead by $50m to $37.5m, but now it is neck and neck. The latest tally of worldwide revenues shows K/FI at $68.4m with Russell Reynolds a mere 1 per cent behind at $67.7m.

Going hell for leather to cut the lead are Europe's Egon Zehnder International ($60m) and America's dignified Spencer Stuart at $59.8m. Peat Marwick ($26.8m) carries the colours of the Big Eight accountancy firms, only three of which are still involved in the search business.

The international activity is carried on by different methods. Some consultancies run their own set-ups in several countries: for example, Heidrick and Struggles, Spencer Stuart, Russell Reynolds, Korn/Ferry, Egon Zehnder. Some are linked through networks with other consultancies overseas: Ward Howell, Nordeman Grimm, Canny Bowen/AMROP. Others, such as Boyden International, are hybrids of cross-ownership.



Source: Executive Recruiter News

Invasion of the US by take-over-hungry British professional-service companies is a spectre that haunts some domestic consultancies, while others apparently welcome it. The US scene is still aghast at the price Blue Arrow paid for Richards Consultants last year – over four times revenues – and Minet/BDC probably paid a pretty penny for Skott/Edwards more recently. But BDC's acquisition of Haley Associates was more in the bargain-basement category. In reverse, Saatchi and Saatchi has sold off its US-based search operation, an offshoot of the UK's MSL, which had been plagued with problems for years.

The largest consultancies' dominance in terms of market share does not prevent their smaller rivals from winning much of the high-level recruiting assignments from major corporations. Of 29 top appointments checked recently, the biggest 10 searchers accounted for only 16, and five of those were credited to just one star individual: Mr Gerry Roche of Heidrick and Struggles.

Meanwhile the pattern of the US business is changing under pressure from employing organisations. The retainer branch is being concentrated more and more on filling the highest paid positions as employers turn to contingency search and do-it-yourself methods for jobs with pay of under $100,000.

Big consultancies are reducing their numbers of client organisations and forming in-depth relationships, often guaranteeing a minimum volume of regular assignments, with a relatively few leading corporations. Cost-conscious client concerns are demanding that retainer consultancies work for fixed fees, as distinct from a percentage of the salary of the person appointed.

Some old-timers bemoan the passing of the Golden Days when search was a gentleman's game conducted largely through the old boy network, in direct contact with the employing organisation's chairman or president. Today the person in the client corporation who hires and works with the consultant is usually no more senior than a human resources executive. As a result, boys of the old brigade can be heard saying things like: "Search has become a commodity to be sold to the lowest bidder, regardless of relationships or quality of service."

But, as an observer of the business, I welcome the changes which are bringing search out of the closet and onto the examining table. Some of the old relationships became incestuous and caused the business to grow lazy.

Moreover, it continues to be plagued by the growing pains of any nascent profession. They include lack of professional leadership, absence of statesmanship among top consultancies as they vie for the "world's biggest" tag, price-cutting and other forms of fee gamesmanship.

Only relatively recently has there been significant attention to codes of ethical and professional practice. The Association of Executive Search Consultants (AESC) has made commendable progress. So has its easier-entry counterpart for individual operators, the National Association of Corporate and Professional Recruiters, which mixes buyers and sellers in a surprisingly successful format.

AESC, however, with just 80 member consultancies, represents only a fifth of total retainer-search billings. The four largest businesses – including two, Spencer Stuart and Russell Reynolds, which used to be AESC members – have gone off to found an Executive Search Council that is as yet all promise and no visible performance.

Even so, in the US at least, the business seems to be coming of age. Fewer consultants are heard complaining about the "double-sell" problem: "First we've got to sell the concept, then we've got to sell our firm." We also hear fewer horror stories, although a Boston recruiter was recently charged with insider training by the Securities and Exchange Commission. It alleges that he bought shares in a company before public announcement of the new chief executive he had found for it.

Unfortunately, he gained only $14,000 from partial sale, and is at present stuck with almost 20,000 shares at a loss.

**Mr Kennedy is editor and publisher of Executive Recruiter News, of Fitzwilliam, New Hampshire, US.*

The pecking order

THE BIG EIGHT EXECUTIVE SEARCH FIRMS

	Estimated annual UK fee income 1987-88	Number of assignments	Number of consultants
Russell Reynolds	£6.6m*	250*	19
Goddard Kay Rogers	£5.2m#	200#	15
Norman Broadbent	£5m#	200#	7
Spencer Stuart	£4.5m#	200#	12
Whitehead Mann	£3.5m	150-170	10
Heidrick & Struggles	£3.2m*	140#	8
Egon Zehnder	£3.2m*	160	9
Korn/Ferry	£2.8m*	110*	7

*Not officially supplied by the firm: estimated from a variety of sources. #Approximate figures, but provided by the firm

Continued from page 2

Other search firms are moving towards such linked subsidiaries, to enhance the core business, diversify activities and maintain turnover. Heidrick & Struggles has achieved this through its acquisition of Eurosurvey; Egon Zehnder already has a sideline in temporary executives, and Spencer Stuart is planning a joint venture corporate turnaround service.

Heidrick & Struggles was founded in Chicago in 1953 and, although reaching London in 1970, made a real impact only with the arrival of Dr John Viney in 1985, who doubled the number of consultants and increased fee income by more than 300 per cent. Dr Viney's strong and imaginative leadership pushed the firm into new areas, evangelically aiming to break down theold boy network, seeing his firm as outgoing, open and contemporary; its consultants are clearly more youthful, in age and attitude, than many of their rivals. They have developed a distinct boutique style, in contrast to the supermarket approach of Korn/Ferry, but share GKR's problem of inadequate international coverage, in this case in the Far East.

Egon Zehnder is the only non-American of the multinational search firms, although the Swiss Dr Zehnder was originally a Spencer Stuart consultant. He left, as Norman and others left Russell Reynolds, over the question of equity. Egon Zehnder is owned equally by the senior partners worldwide, and all new consultants are taken on with the view that they will ultimately become partners.

Like Spencer Stuart, fees are charged according to time and difficulty, rather than the more usual one-third of the successful candidate's first year remuneration. Both firms are also known for the loyalty of their consultants, although Egon Zehnder's tend to be younger and less formal. The firm's style is European, more than American or British and its handling of assignments reveals typical Swiss precision and extremely high quality work.

Egon Zehnder is the only major search firm to offer management consultancy advice on a similar level to its executive search practice.

Of the American firms, if Russell Reynolds is the most elite, Spencer Stuart the most discreet and quietly professional, and Heidrick & Struggles the most individualistic and entrepreneurial, then Korn/Ferry, the largest headhunting firm in the world, is the most ambitious. It arrived in 1973, unique among the multinationals in taking over an existing British firm rather than starting a new branch, but with continued autonomy.

The London office has failed to match the pace of expansion of the rest of the Korn/Ferry empire. The business was not fully integrated until the appointment of Stephen Rowlinson, the *current London managing director*, in 1985. He replaced the consultants largely with fellow ex-McKinsey people. But for all its prominence in American headhunting, Korn/Ferry is not yet No 1 in Britain, although Rowlinson is convinced that his firm will ultimately become twice as large – in number of consultants and earnings – as any other search firm in London.

The Big Eight executive search firms have thus established distinct corporate personas, with worldwide and diversified empires, which are comparable with the Big Eight accountancy firms. Together they generate an annual aggregate fee income of nearly £32m, through handling over 1,500 senior appointments. The 85 consultants within the leading search firms in Britain now earn salaries and bonuses on the same level as in the higher echelons of the professional services.

The most senior 20 partners at Freshfields or Slaughter & May, who take home over £¼m annually, are now being joined as Britain's highest earners by top headhunters – the dozen or so individuals who lead each firm – whose incomes have doubled in the last three years. Britain's most successful search consultants now make as much as the people they recruit which, in the City, can often mean up to four or five times their base salaries of £100,000. Top headhunters are now peers among peers.

The author, a freelance business historian, teaches economic history at the London School of Economics. Her latest book, The Headhunting Business, is to be published by Chapman & Hall in December 1988.

Interviews: the case for and against face-to-face selection

Other filters for the dregs

THERE CANNOT be many things on which all involved in recruitment – candidates as well as employers and selection consultants – are generally agreed. But one of them is certainly that too much of the job-interviewing, which so often exercises the decisive influence over who gets the post, is bad.

The widespread impressionistic agreement on that point is supported by a lot of research which has shown interviewing to be a poor predictor of work performance. Nor are the ill-effects confined to the frequent appointment of a candidate who is wrong for the work. Substandard interviews can be equally damaging, although less noticeably so, in rejecting the candidate who is right for it.

But bad interviewing, which might perhaps be remedied by training in technique, is far from the sole problem. For it seems clear that even well-conducted interviews are in many cases unnecessary. As such, since they demand the physical presence of the victims as well as the employers' interrogators, they are expensively wasteful.

The conclusion must surely be that it would be in everyone's interests for recruiters in general to reduce their dependence on interviews by making use of other means of filtering that do not require candidates to be present. The question is which of the numerous alternative filters available are likely to produce a good result.

If they are taken in alphabetical order, astrology leads the roll. With due deference to Mrs Nancy Reagan, however, it also scores extremely poorly as a predictor of job performance, even though there may be some claim for its ability to present a broadbrush picture of personality and style. There are better options.

The list I personally favour – not only in my role as a headhunter, but also as chairman of a manufacturing and marketing company – is headed by three techniques. First is the so-called scored life-history method. Next comes fostering self-selection, in the sense of giving applicants as much relevant information on the job as is practicable, so enabling them to judge their suitability for themselves. Another technique is graphology.

Scored life-history starts with study of the particular employing organisation's existing staff to identify skills, abilities that could be developed into skills, and other attributes which can be seen to be linked with successful work. The findings are used to draw up a specification of the sort of person likely to be suitable for each job-opening, and the specifications are translated into a searching application form. The completed forms sent back by candidates allow a pretty detailed assessment of how far they meet the employer's criteria.

Properly applied, the method has a high rating as a predictor of performance. Besides cutting down the numbers of people who need to be brought in for face-to-face grilling, it can enable employers to be sharper in questioning the few they opt to see.

Some managements could well already be using a technique on similar lines without knowing it. An example is the chief of a thriving consultancy I met recently who was unhappy about what he saw as his organisation's total reliance on interviews and gut-feelings in selecting staff, even though the results seemed generally good. It emerged that, before any candidates were called in, their applications were analysed in the light of a demanding employee-specification. All the interview was used for was checking whether candidates' "personal chemistry" would enable them to fit into the existing team.

The third of my preferred filters which can be applied in the applicants' absence is graphology. Although the objective evidence is that handwriting analysis is a fairly poor predictor of working success, my experience is that when carried out by a good professional practitioner it can be an effective guide to people's personality and style.

The whistle was blown by a graphologist

For instance, I have in the past interviewed and unfortunately recruited a few people whose job performance has veered from idiosyncratic to loony and/or crooked. In the two worst cases the whistle was blown (alas, too late) by my firm's favourite graphologist, Mr Alan Bishop, even though the impending trouble was not foreshadowed by psychometric tests we had applied at the selection stage.

Even so, psychometric testing - which if it is to be done in adequate depth, usually requires the candidates to be on hand – can be of great value, not least in identifying the high intelligence which is of inestimable importance at managerial level. There are hundreds of such tests available, but they are not suitable for application by the untrained. One of several dangers is that some remain open to charges of illegal bias on grounds of sex or race.

It is therefore important for any recruiter contemplating using psychometric measures to talk beforehand to a competent specialist in the testing field, who is likely to be a psychologist, with a view to deciding which yardsticks of what qualities best suit the employer's particular needs. The range of attributes which can be assessed is immense. It includes,among numerous others, not only the degree of intelligence but the ways in which it is applied, management style, team behaviour, work aptitudes and skills, interests, and even mental health.

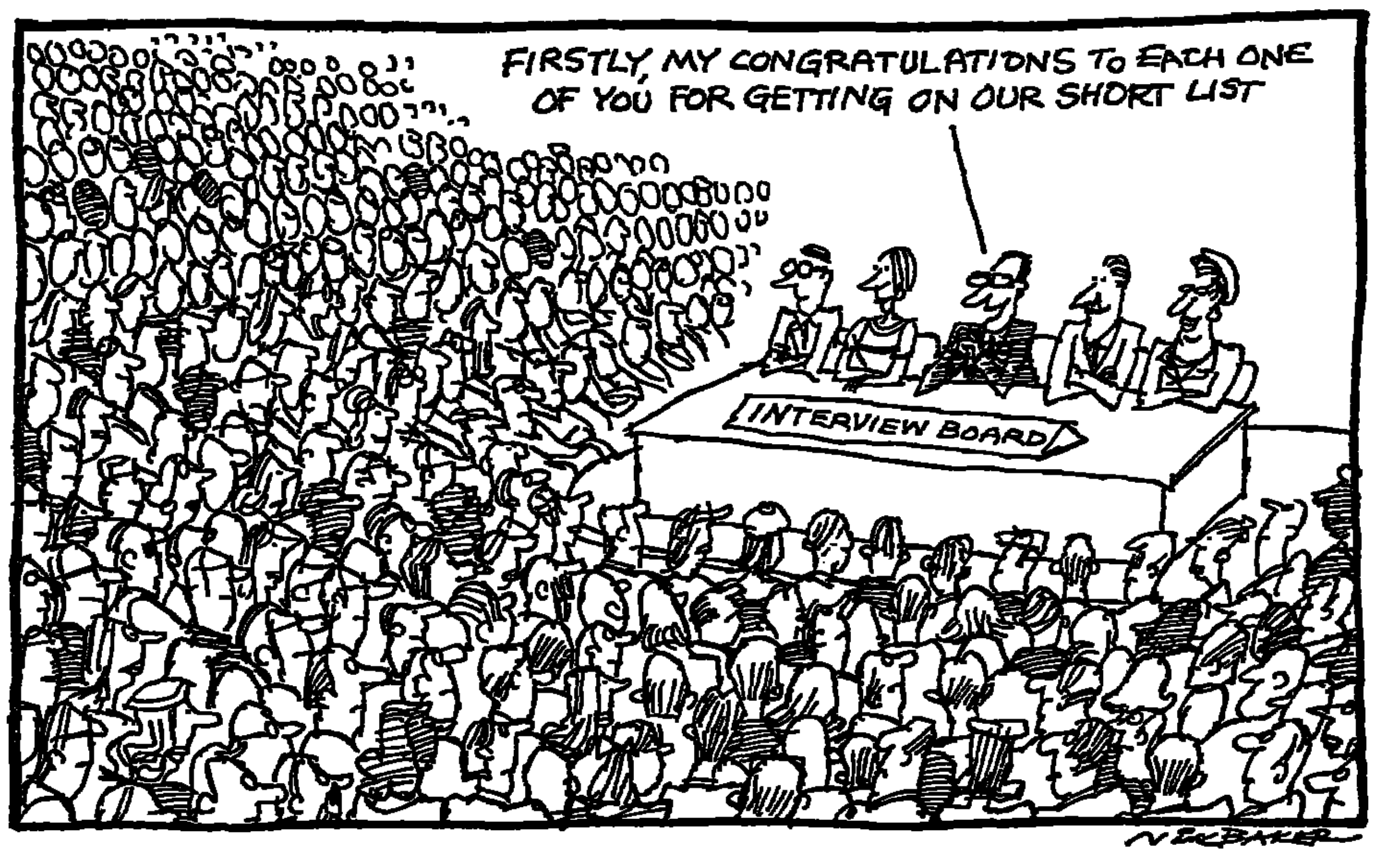
The point of using techniques *such as those I have mentioned is* not to strive after some comprehensive, utterly dependable means of selection, but only to judge applicants' suitability with more thoroughness and consistent accuracy than is yielded by the average or even above-average interview.

The man who was appointed was interviewed by professional recruitment consultants, the company's personnel manager, its previous financial controller, the chairman, the managing director, and the company secretary. An external firm of psychologists was called in to test the candidate for personality fit and the like. He was also given warm references by previous employers. The reason he was fired not long afterwards was that his accountancy skills were not up to scratch.

John Courtis

**The author is chairman of the John Courtis and Partners selection consultancy and of Deeko plc, and immediate past chairman of the Federation of Recruitment and Employment Services.*

A better guide than chance



"I WAS with my husband one night at a local get-together when he suddenly produced some string and did a funny, if not entirely decent, party trick," the distinguished psychologist said.

"He's a psychologist too, and besides being long married, we knew each other well before when we were students together. We've also taken lots of psychometric tests and seen one another's results. But before that night, if I'd been asked on my professional authority to name something my husband would never do, I'd have said it was a party trick."

Managers responsible for recruiting will not be cheered by this evidence that judgments of people's capabilities are liable to err even when made by skilled psychologists of their closest companion. But the same applies to the evidence of so-called objective tests which, after all, are mostly devised by similarly error-prone psychologists.

But, since whoever finally decides which candidate to appoint cannot avoid giving hostage to fortune, recruiters surely do better to recognise that fact than turn a blind eye to it. Moreover, far from being a pretext for fatalistically making appointments off the cuff, awareness of the inevitable uncertainty is a reason for doing everything worthwhile to keep it to the minimum.

The issue is whether decisions based on interviewing generally increase the selection process's fallibility (as John Courtis argues in the adjacent article), or whether they reduce it. If the latter, there can be no denying they are as necessary as other techniques that produce the same effect. Like the other tools too, interviews can be handled either well or badly; and any overuse of them is not a defect in the tool itself, but in the people who decide how often to use it.

The key factor in Mr Courtis's argument therefore seems to be the repeated findings of research that interviews are on the whole a poor predictor of actual working performance. The trouble is that so are the other techniques – or, at least, even the best of them do not seem sufficiently better than interviewing to be clearly worth the extra cost of their use.

For evidence here, I turn to a study by Dr Ivan Robertson and Dr Mike Smith of the University of Manchester Institute of Science and Technology, in which they reviewed the results of research into selection methods. One way of measuring the methods' accuracy is to compare their predictions of people's suitability for a job with their performance in it later, then work out to what extent the predictions were more accurate than forecasts that could have been made on the basis of pure chance.

By that yardstick, the most dependable single method was the "work sample" or "in-tray" exercise. It confronts people with various tasks important in the job in question, such as a pile of letters and statistical reports, and measured how well candidates deal with them. But even that test turned out to be only 21 per cent more reliable than pure chance.

Second, with an 18 per cent score, came "supervisor/peer" evaluation, which consists of uniformly structured assessments of candidates' ability which are made by people who would work directly above or alongside them. Next, a fraction of a percentage point behind, came "assessment centres" which are in essence a much expanded version of the work sample.

Fourth, with 12 per cent, came intelligence quotient tests. They were closely followed by the scored life-history method which Mr Courtis describes. Sixth place went to reference-checking, but its rating was only 5 per cent more reliable than pure chance. Then came interviews at 3 per cent. But that was better than personality testing's 2 per cent, and tests of people's interests were a point lower still.

While the review also took in handwriting-analysis, the number of people covered by the research into it was relatively small. On such evidence as existed, however, graphology was the worst of the lot.

It is worth emphasising that those percentage scores emerged from many thousands of applications, whether competent or otherwise, of the methods concerned. We just do not know how successfully predictive each was.

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Executive search

The £40,000 watershed

A NEW tendency is becoming increasingly apparent in the recruitment marketplace. An arbitrary watershed is being established at a salary level of about £40,000. Below this figure, positions are advertised. Above it, organisations turn to executive search.

It is not clear why this has happened. Certainly, executive-search has shaken off any ethical stigma it may have had. Indeed, some specialists in this marketplace have earned themselves formidable reputations, and it pays to be seen at their parties.

Search is undoubtedly an excellent method of resourcing positions at the highest levels of very large organisations. It also works extremely well in specialist business or technical areas where the number of potential candidates is limited. A few reputations may have become rather tarnished in the wake of the Big Bang and the large-scale poaching of banking and finance teams, but executive search continues to gain in popularity.

Search is very much the Rolls-Royce approach – expensive to buy, but very flattering on your ego. But it is results which count in the end

But should it be the automatic choice for an organisation as a recruitment method, simply because a position falls above a magical salary threshold or management grade? If you need a functional director or general business manager, executive search can have its disadvantages.

However, cost-effectiveness is not a major argument either way, except that sometimes it can take a long time for a search to produce a sizeable short list.

The main problem for positions such as finance director is that executive search results in an unnecessary limitation of the applicant group. The coverage of the marketplace is limited by the quality of the consultant's research department. At the same time, because the number of potential applicants for a finance director's position is very large, it is more difficult to identify good target candidates. The best candidate for such a position may not work for an easily identifiable competitor.

You may waste a considerable amount of time in talking to a wide variety of people who may not really wish to move jobs, but whose egos have been flattered by the approach.

If you advertise the position in a suitable medium, however, you reach a better cross-section of managers at the same time. True, you get no-hopers and timewasters, but you also get a good number of high quality replies. These people have at least considered moving from their present positions rather more actively than some candidates approached by search consultants.

As business and commerce becomes more competitive, the value of individuals within those businesses continues to rise – companies want the best staff, not simply the second-best. And they are prepared to pay to find them.

The question is, of course, whether they should pay to *select* or *search* for them. The question has fundamental implications for top management.

Those of us who are in recruitment selection suspect that many buyers of search have only a hazy idea of its advantages. They feel that if they are looking for a Rolls-Royce manager, they should employ Rolls-Royce techniques.

In terms of cost, search is very much the Rolls-Royce approach: expensive to buy, but very flattering on your ego.

But does it produce the best candidates for the job? The evidence suggests otherwise: selection reaches the candidates that search does not always find.

Executive selection may not be the Rolls-Royce approach, but it gets results. And, as any manager knows, it is results which count in the end.

Jane Woodward

The author is Executive Recruitment Manager, Stoy Hayward.

Counselling those who have lost their jobs

Memo to discarded executives: beware of sharks

GASH STAFF aren't given the sack; they only get outplaced.

THAT updated version of the jingle about old soldiers refers to perhaps the most striking phenomenon to occur in the personnel services field in the past 20 years. The phenomenon is the development of "outplacement" - the business of counselling people who have lost their job on how to recover.

Having apparently originated in America in the 1960s, it crossed the Atlantic at the start of the next decade and is now implanted in at least a dozen European countries. Although it owes its firm roots mainly to the recession, it seems to be still growing.

A survey early last year by the Geneva-based Consultex consultancy showed there were at least 55 of the counselling concerns in Europe, some operating internationally. Most remain true to the business's origins of concentrating largely if not exclusively on executive-status discards. But a few have developed the activity of helping all ranks of people, sometimes entire workforces, being ditched because of company closure and the like.

The phenomenon testifies to private enterprise's ability to respond to a new need even for a "caring" service of the sort usually associated with the public sector. For it seems clear, not least from the words of outplacement consultancies' direct customers, that the bulk of them give good value for their money.

Unfortunately, however, the typically bemused state of people suddenly thrown of out jobs with compensation payments in their pockets has been battened on by some unscrupulous operators. The newly fired are lured in, career histories in hand, by advertisements which sometimes falsely purport to offer some attractively paid post. The sharks then set about their prospective prey on the following pattern:

"Looking at your career record, I don't see any serious drawbacks. All the same, me and my colleagues here have met hundreds of people whose careers have fallen apart, not because they'd done something wrong to make it happen, but because they did nothing to prevent it. And I'd say that's the danger in your case.

"Unluckily your age means you're at a crossroads and if you make another mistake right now.. well, though I don't want to sound overly dramatic, it worries me. So your problem, John, is what are you going to *do* about it?" Those words are quoted from a training manual given by a shark outfit (since deservedly driven out of business) to its staff of quasi-counsellors. The script of what is to be spoken to the potential customers is interspersed with directions to the speaker, such as:

"The next stage will be the fee. But note that you do not discuss the fee until after your personal reading of the prospective client's problems. You don't want him thinking of our service when you talk money; you'll want him thinking of the lump in his throat."

A key aspect of the case just cited is that the persons receiving the "service" pay for it from their own pocket. And while numerous honest counselling concerns also accept self-financing customers, it is that aspect which mainly enables the shifty minority to flourish.

The bulk of outplacement consultancies give good value for money. But some unscrupulous operators batten on the newly fired

In Europe at least, most outplacement consultancies do not at present take their fees directly from the people who are being ditched. The money is paid over by the organisation which is ditching them.

If those consultancies noticeably failed to supply value for money, they would be liable to find themselves legally embroiled with a company rather than merely an out-of-work individual. The larger threat, if not enough to rule out substandard services entirely, is certainly a strong deterrent. Hence the main risk from sharks is in America, although there is some evidence of a few lurking to the east of the Atlantic.

The trouble is that a lot more might well be attracted over as a result of present developments in the jobs markets of Europe. Its fertility for the growth of outplacement businesses paid by discarding employers is probably explained by the combination of economic need and technological advance that led to wholesale shedding of staff, not least from the middle to upper levels.

Many organisations felt guilty about ditching people, particularly if they had given good and long service. Paying for them to have counselling was a handy way of quelling the corporate conscience.

But – for the reasons noted in the introductory article of this survey – conditions are radically changing. It looks highly likely that, fairly soon, top managements will no longer be paying outplacers to take skilled people aged 40-plus off their hands. They will be paying headhunters to lay hands on them. What price then a business whose income consists entirely of fees from discarding employers?

The most probable outcome is that counselling concerns which wish to survive will have to take on more and more self-financing customers. And as it happens, there may be a good many more of them on the market. For it looks quite likely also that, although humans may be in greater demand, the particular occupational skill any one of them possesses will not retain its earning power for anywhere near as long as it used to.

The signs are that, instead of pursuing one main line of career, ambitious people will increasingly have to switch lines several times in their working life as old types of job die and new ones spring into being. Since such switches are rarely if ever easy to make, there will probably be a heavy need for a shock-absorbing process to make the transitions easier. The services of good outplacement consultants would seem to be a ready-made answer.

But the rise in demand would also offer rich pickings in Europe for the sharks of the business. What is more, besides besmirching the public image of honest counselling concerns, the widespread appearance of the opposite variety might well lead governments to impose legal restrictions which, if typical of their kind, would hamper the enterprise of the honourable as well as of the shifty.

While it is, of course, far from sure that such a development will take place, the probability of it is enough to give the upright consultancies reason to find ways of forestalling it from becoming a reality. One way might be to band together in a professional association with a code of ethics both clearly defined and policed with sufficient rigour to exclude any unscrupulous operator.

There were stirrings in that direction when a large number of European outplacers-in-chief held their first trade conference in Geneva last autumn. Even so, the history of attempts to set up effective self-regulating associations in newly emerged businesses is not encouraging. But there the outplacement trade may have a potential advantage lacked by most business areas.

It is that an important nucleus of European counselling concerns are headed by entrepreneurial women. For instance, it was two members of that nucleus which pioneered the extension of the service from executive-rankers to staff of all levels. It has often been said – and not only by female voices – that besides having a sharper appreciation than men of ethical issues, women tend to have better organising powers. There is now a golden opportunity for those in outplacement to organise a counter to the ethical threat to the future of the business.

Michael Dixon

Selection tests

Pessimists can't sell...

MUCH LIKE Groucho Marx, who in the guise of an American university chief once sang: "Whatever it is, I'm against it", recruiters today might say: "Whatever it is, I can test it". They can call on a colossal number of devices for assessing a broad range of human attributes.

The trouble is that in many instances there is considerable obscurity about the nature of the faculty being measured. In the case of intelligence quotient tests, for example, hardly any expert in the matter would claim they assessed "intelligence" in the comprehensive sense meant by the lay public's use of the word.

What IQ tests largely measure is a narrower kind of intelligence – ability at intellectually grasping and manipulating information couched in systems of symbols like language and mathematics, that can be inscribed on paper.

That is not the same as ability to act intelligently on the basis of more fleeting information, such as that transmitted by other people's behaviour, which most managers in particular are required to do. And to what extent the two abilities may be mutually dependent is still controversial.

Another type of snag is that, when it comes to predicting work performance, the various tests evidently do not guarantee recruiters spectacularly more success in selecting than they might gain by putting all the initial applications in a hat, and picking one out blindfold.

Nevertheless, provided the devices' faultiness is understood and they detect traits which have previously been found linked with success in the job at issue, they can make the selection process a bit more accurate than it would be without them.

Besides the assessment methods already in wide use by professional recruiters, recent years have seen the development of a number as yet known only to a minority. Two of them – known respectively as the System for Identifying Motivated Abilities (SIMA), and the Selection Research International structured interview (SRI) - have a similar approach to gauging human faculties. It can be divided into three successive stages.

Candidates are first engaged in conversation related to the work they have done, but without any immediate bearing on the job for which they are being considered. The conversation is recorded. The assessor then uses the recording to take careful note, not of the claims the candidates may have made, but of the words they used and the way they used them. The analysis is finally compared with the typical content and manner of speech of people with proven success in the work in question.

The connection between talking-style and conversation is not far-fetched. It is very common for a person skilled in a particular activity to form judgments of others' skills in the activity on the basis of their conversation. On occasions when people are recalling an encounter with someone purporting to be in their trade, they often say something like: "I'd never have credited that woman with being a professional juggler, until she said that."

Fairly often, although definitely not always, such judgments turn out to be right. The SIMA and SRI methods, both initially developed in the US, depend on separate systematic and therefore possibly more reliable versions of the same process.

Judgment of others' skills based on conversation

A further method originating in America, which is still less well known east of the Atlantic, at least, is one developed by the psychologist Professor Martin Seligman of the University of Pennsylvania. It is founded on his long research into motivation in which he has studied many thousands of people and animals faced with tasks of varying difficulty under different degrees of stress.

The findings can be summarised crudely by saying that the reactions were of into three broad types, with about a third of the victims falling into each.

Those of one type, when the task whether hard or easy had to be learned in conditions of miserable discomfort, not only just gave up but thereafter balked at trying again even when the circumstances were made favourable. They might be termed the "pessimists". The second type, who could be called the "realists", were considerably less prone to give up and more willing to have another go when conditions improved. The third, the "optimists", could not be deterred from going on trying, no matter how wretchedly they were treated.

Professor Seligman considers that the difference in the three groups' responses to the same problems is rooted in the way the people concerned accounted to themselves for their failure to cope with their miserable circumstances. He suggests there are again three main ways in which people can mentally interpret a failure.

First, they can blame it either on themselves and so assume the cause to be "internal"; or attribute their downfall to some "external" agency. Second, they may either conclude that they lack the basic ability required for success and so assume the failure to be "stable"; or blame it on their being temporarily off form or on a similarly "unstable" cause. Third, they can either decide that the trouble is "specific" in the sense that there are some things they are bad at and this happens to be one of them; or they may decide the problem is "global" in the sense that there is nothing they are good at whatsoever.

The professor maintains that, on experiencing failure, the pessimists explain it to themselves bleakly as not only internal and stable, but also global. By contrast, the optimists dismiss it chirpily as as merely external, unstable and specific. The realists' self-explanations fall somewhere between the bleak and chirpy extremes. And he claims his tests distinguish finely between the three approaches.

He believes that only thoroughgoing optimists are really fitted for jobs in which the people doing them are prone to continual reverses of fortune if not rebuffs from the people they have to deal with. Examples include commodity trading as well as more directly selling various things, of which perhaps the supreme instance is life assurance.

Over the past five years Professor Seligman has been working with the Metropolitan Life group in the US on the selection of its sales staff. "We've followed up on 1,000 recruits of recent years," he said, "and those in the more optimistic part of the range outsell the rest by 25 to 40 per cent.

"That's not all, however. To get the job you must usually pass an insurance-industry competence test. And besides the 1,000 who all passed, the company took on 129 who failed it but on our tests had extremely high optimism scores. They're outselling the whole lot of the others by 10 per cent."

Fortunately for those with pessimistic frames of mind, the professor believes they are not doomed to remain in that condition. Given that a key factor in their glum approach is the way they explain failures to themselves, he thinks that in at least some cases they can be raised in essential spirit by being trained to adopt a cheerier mode of mentally accounting for life's inevitable buffets. Some American hospitals have tried perking up the self-explanation styles of severely depressed patients, often with good effects

Michael Dixon

A better guide than chance

Continued from Page 4

when handled expertly. It nevertheless seems fair to suppose that the interviewers involved were on average less well trained in what they were doing than those applying most of the other methods.

What is more, the others largely lack a faculty that interviewing possesses. It is that the boss for whom the candidates would be working can get a sense of that often crucial "whatever-it-is" which John Courtis calls "personal chemistry". (Since not even people who claim to be able to detect it can state the chemical equations by which they do so, I feel a more accurate term would be "personal alchemy".)

Interviews offer a further potential advantage in that boss and prospective subordinate can meet face-to-face over time. So it is possible that something the interviewer says or does may lead candidates to reveal some capability never observed or expected in them before.

The best conclusion possibly follows from Mr Courtis's recommendation of graphology. "Although the objective evidence is that handwriting-analysis is a fairly poor predictor of working success," he states, "my experience is that when carried out by a good professional practitioner it can be an effective guide...."

Executive pay is not the same as buying power, or as real income

Don't feel too sorry for the Swedes

ANYONE LOOKING at pay statistics for executives in the western world is apt to feel sorry for the Scandinavians. In gross terms, their money earnings look fairly satisfactory. But when it comes to the more important matter of the buying power their work brings them, things are different. By that criterion, they cluster at the foot of the league, along with the Greeks and Portuguese who start with far lower gross earnings.

"But you'd be quite wrong to weep for the Scandinavians as the poor folk of Europe," says Mr Barry Rodin, a manager with Employment Conditions Abroad, one of the specialist consultancies which advises international employers on trends in pay and living costs in different countries.

"After all," he adds, "when you go to Stockholm and meet Swedish executives, for instance, you find they usually have two houses as well as a yacht and so on. So they clearly find some way of boosting their real-terms rewards that isn't picked up by the statistical measurements available."

The case of the Scandinavians stands as a warning to employers against vesting too much belief in the figures of surveys of earnings and living expenses. No matter how painstaking the research that goes into such studies, all they can report is the levels of pay and perks prevailing in the particular employing organisations or groups of job-candidates or whatever forming the source of the survey data.

Hence, the findings are at best a rough indicator of reality even when the study is confined to a single nation or region. The indications of surveys spanning several countries are almost certainly still more prone to error.

Nevertheless, such evidence seems to be employers' only means of divining what rewards they must offer to attract and retain essential skills when setting up in – or importing staff from – unfamiliar places. Given the probability that recruiters will need to cast their nets farther afield in the future, the use of survey findings seems bound to become more widespread.

An illustration of the sort of data available on the market is given by the accompanying pay-ranking of the chief executives and other directors of 17 European countries. But caution is especially required in drawing conclusions from the table, which is compiled from a study made around the start of this year by the Executive Compensation Service company based in Brussels, part of the international Wyatt group of actuaries and management consultants.

ECS's full report on the survey contains a wealth of detailed information providing a context for the interpretation of the findings. The table's figures have not only been pulled out of their context; they are also for the most part recalculations of the report's numbers. Whereas the original numbers are mainly in terms of other currencies, the figures here have been put into sterling at the London exchange market's closing rates on June 16.

The table is concerned solely with pay received in money: first basic salaries, then "all cash pay" including bonuses and the like on top of salary. No account is taken of deferred pay such as pension contributions, or of the value of benefits in kind like company cars.

The first set of three columns of figures refers to the "lower quartile" executive who would be placed a quarter way up from the bottom of a ranking of all the people in the same job category and country. The second set of three relates to the "median" executive precisely half way in the ranking, and the third set to the "upper quartile" person a quarter way down from the top. The final three columns are average figures calculated in the standard way.

Besides giving the gross basic salaries and all cash pay, the table ventures estimates of the buying power of the all cash earnings after deductions for tax and social security in the relevant land, and allowing for living-cost differences. The deductions are those standard at the turn of the year for a married person with two dependent children who is a national of the country in question. So British executives may well have been lifted higher in the league by the provisions of the April Budget.

Adjustments for variances in *living costs have been made in* line with ECS's index thereof, which like all other such indices is again at best a rough indicator of reality. One important drawback is that it takes no account of house prices. Even so, it is the best that can be done by way of providing a standard yardstick of the money value executives directly gain in return for work.

In addition to the differences that show, there is another lying behind the inclusive "other directors" figures which conceal variances in board-level pecking order from country to country. In the nations for which the survey gives indications for a full range of specialist directors, the one who averages the highest all cash pay (as a percentage of the same country's chief executives' average) is as follows:

Austria – marketing	60%
Belgium – finance	68%
France – sales	66%
W. Germany – finance	64%
Greece – marketing	67%
Italy – finance	64%
Netherlands – product'n	69%
Portugal – sales	73%
Spain – marketing	69%
Sweden – marketing	72%
Switzerland – sales	67%
UK – marketing	67%

The reasons why the two-house and yacht besprinkled Scandinavians languish at the bottom of such rankings are said by a Swedish personnel chief – who insists on anonymity – to be twofold.

"One is that our countries have a high proportion of families with both partners earning. While other countries are going the same way, we're well ahead in it. In Sweden, for instance, about nine in every 10 women aged 25-45 are working at least part-time, a good many of them in executive posts who tend also to have husbands who are executives. A living standard that comes from two incomes is not shown up by most pay surveys.

"But another thing they miss is that Scandinavians can take advantage of some pretty good tax deductions for interest on loans for buying not just houses, but yachts and pretty well everything substantial. You see, although we pay a lot in taxes, it pays for good schools so we have no need to pay fees for educating children, and for old age pensions you can actually live on." The upshot, the personnel chief adds, is that Scandinavians tend to borrow to live, and not to save a nickel.

Michael Dixon

COUNTRY	JOB CATEGORY	LOWER QUARTILE Basic salary £	LOWER QUARTILE All cash pay £	LOWER QUARTILE *Buying power* £	MEDIAN Basic salary £	MEDIAN All cash pay £	MEDIAN *Buying power* £	UPPER QUARTILE Basic salary £	UPPER QUARTILE All cash pay £	UPPER QUARTILE *Buying power* £	AVERAGE Basic salary £	AVERAGE All cash pay £	AVERAGE *Buying power* £
SWITZERLAND:	Chief executive	61,249	72,935	*39,639*	78,644	97,716	*50,072*	105,521	123,598	*60,456*	84,923	102,628	*52,589*
	Other directors	44,312	47,378	*36,007*	54,770	58,583	*32,748*	70,239	78,638	*42,127*	57,432	62,853	*35,135*
FRANCE:	Chief executive	45,116	48,827	*33,437*	55,306	63,763	*41,871*	67,038	85,748	*50,677*	57,838	70,704	*45,102*
	Other directors	29,038	31,375	*22,369*	34,999	37,873	*26,646*	42,185	45,554	*31,196*	36,132	39,401	*27,352*
LUXEMBOURG:	Chief executive	44,448	46,504	*32,021*	52,308	58,370	*37,718*	75,563	89,276	*51,069*	60,853	67,388	*41,404*
	Other directors	32,104	35,513	*25,569*	42,976	45,061	*29,293*	52,128	56,687	*34,762*	42,775	45,743	*29,733*
WEST GERMANY:	Chief executive	58,343	65,414	*32,679*	72,773	84,600	*39,349*	92,185	102,682	*45,106*	77,596	89,226	*40,732*
	Other directors	39,367	41,368	*22,804*	47,379	50,589	*26,149*	60,547	66,075	*32,440*	51,120	55,175	*28,039*
ITALY:	Chief executive	53,277	59,476	*31,557*	61,370	67,405	*35,157*	73,076	92,470	*45,736*	65,486	77,324	*39,636*
	Other directors	32,286	33,738	*19,418*	38,963	41,677	*23,612*	46,937	51,069	*26,474*	40,032	43,177	*24,268*
SPAIN:	Chief executive	40,034	44,091	*31,458*	46,778	51,785	*34,002*	58,233	69,518	*41,727*	50,414	56,417	*37,058*
	Other directors	25,005	26,699	*21,619*	31,077	33,465	*25,771*	38,233	40,520	*29,828*	32,586	35,054	*26,958*
UNITED KINGDOM:	Chief executive	30,570	34,580	*22,477*	43,460	50,620	*29,866*	62,190	70,510	*37,370*	53,790	63,620	*34,355*
	Other directors	23,073	24,380	*17,310*	29,648	31,935	*20,758*	38,301	41,740	*25,879*	33,099	36,114	*23,113*
AUSTRIA:	Chief executive	44,699	50,810	*19,285*	61,528	70,513	*26,763*	79,179	101,112	*34,464*	63,170	75,758	*26,994*
	Other directors	*34,907*	*37,393*	*14,772*	*44,629*	*47,298*	*17,952*	54,589	59,840	*21,786*	45,618	49,502	*18,789*
NETHERLANDS:	Chief executive	41,912	46,852	*21,577*	58,744	64,063	*27,094*	68,068	72,764	*29,407*	56,983	62,082	*25,256*
	Other directors	31,734	32,891	*17,620*	37,810	39,441	*19,646*	47,028	49,238	*22,675*	39,656	41,499	*19,891*
BELGIUM:	Chief executive	41,984	46,458	*20,199*	52,244	59,114	*23,417*	63,619	72,351	*24,467*	55,695	61,802	*23,884*
	Other directors	29,765	31,334	*15,743*	36,089	38,634	*18,663*	43,815	48,762	*21,201*	37,857	42,014	*19,078*
IRELAND:	Chief executive	33,967	36,837	*17,557*	41,845	44,677	*20,892*	53,805	60,612	*26,709*	43,856	48,147	*22,082*
	Other directors	27,671	28,604	*14,791*	32,196	34,148	*16,890*	35,361	38,146	*18,181*	31,744	33,710	*16,673*
DENMARK:	Chief executive	37,425	44,179	*16,116*	48,928	55,773	*19,461*	65,084	74,646	*24,862*	53,580	61,800	*21,006*
	Other directors	31,121	31,718	*12,577*	36,529	38,146	*14,520*	45,050	48,470	*17,297*	37,805	40,302	*15,021*
FINLAND:	Chief executive	38,945	40,476	*15,790*	48,479	49,789	*18,302*	68,852	68,991	*22,255*	54,437	55,376	*19,525*
	Other directors	28,202	29,381	*13,004*	35,178	35,549	*14,868*	45,523	45,743	*17,158*	37,512	38,153	*15,456*
NORWAY:	Chief executive	28,775	30,674	*14,196*	41,462	45,418	*18,768*	52,846	63,476	*24,656*	41,994	47,005	*19,424*
	Other directors	28,958	29,650	*13,722*	31,923	33,071	*15,032*	36,943	39,568	*17,004*	32,772	34,379	*15,627*
PORTUGAL:	Chief executive	13,046	13,681	*12,972*	17,594	18,501	*15,719*	23,422	24,313	*20,891*	18,469	19,419	*17,549*
	Other directors	10,419	10,821	*10,420*	13,071	13,442	*12,745*	16,250	17,118	*15,723*	13,480	14,061	*13,322*
SWEDEN:	Chief executive	36,670	38,075	*13,243*	45,105	51,668	*16,624*	60,196	66,046	*19,527*	47,732	53,817	*16,847*
	Other directors	27,409	28,768	*11,507*	33,571	35,709	*12,731*	39,719	42,121	*14,285*	34,129	39,483	*13,565*
GREECE:	Chief executive	11,698	15,182	*12,466*	18,264	19,383	*15,440*	25,371	27,438	*20,175*	19,220	21,380	*16,514*
	Other directors	8,994	9,719	*8,576*	11,054	12,108	*10,535*	14,995	16,083	*13,205*	12,236	13,140	*11,111*

Working abroad

Family life may come under strain

WHEN RECRUITING people to work abroad, taking family with them, a good many employers interview not just the candidates but their spouses as well.

How well the partner is fitted to cope with the change is important because expatriates' chances of success are poor if their family life is under strain. And a big source of strain is a drop in living-standards.

The table below shows – from a US viewpoint – how much would be needed in a dozen different countries overseas to keep up the standards of an American family of four who in the US would be living on a gross salary of about £28,000.

The figures come from the latest surveys of worldwide pay levels and living costs made by the US-based consultancy Runzheimer International.

Whereas in the States the family would have its own home on a mortgage in "Standard City", the overseas housing costs relate to rented accommodation including utilities such as electricity and household insurance.

The costs have been converted into sterling at $1.7855 – the London exchange market's average closing rate on June 21.

It would not be valid, however, to use the figures to estimate the money needed to maintain the home living standard of similar-sized expatriate families of other nationalities, even if the breadwinner's salary was the same too.

There are variances in what families of different nations regard as their rightful expectations, as well as in the expense of obtaining them in different countries abroad.

People outside the US would do best to rely on surveys of the overseas costs of expatriates from their own homeland. Such studies are made by numerous consultancies besides Runzheimer, including Britain's PE-Inbucon of Egham, Surrey, and the London-based Employment Conditions Abroad.

Michael Dixon

Yearly cost in overseas countries of keeping up US expatriate family's "home" standard of living

Where working	Housing £	Goods etc. £	Transport £	Total £
US	6,787	9,675	2,774	19,216
Tokyo	70,987	21,952	7,107	100,046
Paris	30,311	17,223	6,953	54,487
Geneva	27,746	19,855	5,547	53,148
London	30,967	13,550	5,812	50,329
Hong Kong	34,828	9,883	4,763	49,474
Singapore	22,818	14,238	9,335	46,391
Frankfurt	12,392	15,466	5,568	33,426
Amsterdam	14,161	12,854	5,966	32,981
Brussels	12,324	13,956	5,399	31,679
Toronto	9,768	10,981	3,129	23,876
Mexico City	13,706	6,716	2,687	23,109

Justin Smith looks at the growing freelance (or contract) market

Just waiting for the bubble to burst

IT HAS always been hard for companies to fit expensive specialists into their salary structures, especially when they are young and in short supply. When large teams of these awkward creatures are needed, the problem intensifies.

Systems development staff – computer programmers, systems analysts and business analysts – should have been around long enough by now to be squeezed into the mould. However, changes in technology and the increasing importance of information management have created demands for new skills that are liable to be poached as soon as they are developed.

Meanwhile, corporate career development demands that successful staff are promoted to management, where they have more pay and status but also a new set of skills to learn. This leaves the less experienced to do the work. Rapidly, the competent technician becomes worth more to the firm in the short term than the manager he works for. Few are prepared to pay their permanent staff on this basis.

Many of those who cannot get on within this system transfer to the freelance market. Agencies then hire them for the same companies from which they came to supplement the junior staff left behind. The system suits everyone – the company because it can obtain the experienced technicians it needs without upsetting the hierarchy and the contractor because he is paid enough for his skills to put up with the status of technician. Few contractors are paid less than the permanent staff to whom they report.

The salary scale not the only reason for the contract market. Companies changing to a new technique or environment often want at least one person who has already tried it.

The very nature of project development demands that large teams be assembled for a relatively short period. It has proved very convenient to be able to hire these almost completely from the contract market, throwing them out when their part of the job is done. Sometimes a different group of specialists is brought in immediately to handle the next phase. Another advantage is the speed with which contractors can be hired: assembling a permanent department is a long process.

By no means all contractors are purely technical. Good project managers capable of running a large critical development or a clutch of smaller ones are scarcer than technical specialists. While analysts and programmers are the bread-and-butter of the industry, agencies provide temporary staff at all levels from operator to department head. Some contractors now operate in a management consultancy role rather than a data processing one: this seems to be a growing trend.

Contracting is largely carried out through a network of agencies. They advertise heavily through trade newspapers that are distributed free to computer staff. These have some of the highest rates for job advertisements in the British trade press.

More recently, the contract market has acquired its own specialised magazine – the Freelance Informer (FI). This irreverent publication was started, unusually, by a contractor not a publisher, who has had the satisfaction of capturing a large part of the contract advertising expenditure from the professionals.

In less than six years he has built his circulation up to 13,500. A survey two years ago estimated there were 13,000 analysts and programmers (and some 8,000 operators) working through the agency market, so it is clear that most serious contractors can be reached through its pages.

FI estimates it has over 200 agency advertisers, of which at least a dozen are "multiples" with branches in more than one region. Most of the older ones combine contract agency with permanent computer staff recruitment.

The market is highly structured with clients demanding specific combinations of skill and experience, usually in the same industry. Insurance companies do not want to teach the contractor the basics of insurance any more than they want to teach him COBOL.

If a contractor is finishing one job and another comes up at the same site, he will probably be slung out if someone else's skills are a better match for the new requirement. Most agencies insist that contractors operate at arm's length through their own companies, and because contractors are not directly employed by the agencies, most have their CVs with several different companies to make sure an opportunity for their particular skills comes up. Few agencies ever plough anything back into their contractors and indeed they rarely meet them, but they do pay quickly, carrying the cash flow problem for the smaller one-arm bands.

Systems staff "go contract" for many different reasons. A basic one is money. A contractor should earn at least 50 per cent more than he would in a permanent position and a rise of 100 per cent is a not unreasonable expectation. This means rates of £500+ a week in the South-East for an old-fashioned COBOL programmer; £600-£900 for someone experienced in one of the newer "Fourth Generation" languages on mini computers or mainframes or in the latest key IBM mainframe products such as DB2.

Senior business analysts and project manager for large critical projects – people who prevent expensive mistakes being made in identifying the requirement and designing the solution, and those who can manage a large number of sub-teams well – can command between £1,000 and £1,500 a week. And that is after an agency has taken its cut of between 15 and 30 per cent.

Many others transfer to contracting because their career paths are blocked in their present installations; because they have tried management and either failed or found it a thankless task; or because they find the so-called benefits of permanent employment are largely illusory. Certainly the job security of a permanent job is not what it was and pension rights are not highly prized in a market of young people in which it is normal practice to move fairly frequently to develop one's experience.

There are also quite a few Australians and New Zealanders working their passage by contracting on their traditional Grand Tour – curiously, the main recipients of contract advertising outside the trade press are the Australian oriented free magazine available from bins on street corners all over London.

In an overheated market, there is no doubt that ethical standards are lowered

Once he has transferred from a permanent job, the contractor's life is likely to be rather different. If he is lucky or fairly senior, he may be treated as a valuable consultant from whom all on site can learn. On the other had, if he is more junior and working in a team of permanent staff he may find his income resented by those who are not prepared to take the same risks themselves. Whatever happens, he will have to perform or he will find himself out of work when his contract comes up for renewal.

Initially, at least, he is likely to find himself watched to make sure the company is getting value from him. Even when a contract ends satisfactorily, he may find it takes a while to find a new project. He receives no income until he is placed again. His holidays are also unpaid and may have to be taken at his client's convenience or between jobs.

Moreover, he will have to run his own company and register it for VAT, with all the extra problems of accounting and auditing these involve, though there are advantages in being able to charge some things before tax. He will have to run his own car, and provide for his own health – without insurance a long illness could prove catastrophic.

Career development is a major problem for a contractor. It will never be as quick as for permanent staff and it can come to a complete halt for long periods so that those left behind in permanent jobs can gradually catch up again through promotion.

Most look hard for a chance to learn something new every time they change site. As the clients are looking for experience, taking a course in a new skill is unlikely to lead to new opportunities unless a client has agreed to it in advance. However, a contractor who develops a relationship with a client stands a good chance he will be given something new to do rather than the company take on yet another new face.

The traditional answer if the skills became too outdated was to return to permanent employment for a while. Unfortunately, that is a doubtful option now as many companies have become disillusioned with the cost of training their own staff only to have them poached almost immediately by less scrupulous competitors.

Where training is available, it is liable to centre on young new entrants and those already in management: age becomes the block rather than the nature of the employment. Some IBM mainframe sites have always been careful to ration the amount of training available to any member of staff receive because of the danger of their hawking the new skill in the market place.

The short-sightedness of management can be breathtaking on occasions. The CCTA recently decided government projects would use only consultants with experience of the (relatively new) structured design techniques such as their own SSADM methodology. This has provided a sharp upwards twist for contract rates but virtually wipes out a whole generation or two of experienced contractors who will find it very hard to obtain these skills. The irony is that these staff are likely to be replaced by the public sector's existing permanent staff.

Other companies have relied on the market to the extent of setting their targets so tight they can be met only by experienced professionals, leaving no room in their plans to develop their own staff. The benefits of these projects are such that they are then prepared to pay whatever they must to assemble these teams. This was particularly noticeable during the run-up to "Big Bang" in the City, when rates took a sharp twist upwards.

Many of the new corporate entrants had no choice. They could not have developed their own in-house teams from scratch in the time available. Ultimately, this increase in demand without any attempt to increase supply is the contractor's greatest ally.

In an overheated market there is no doubt that ethical standards are lowered by some of the clients, agencies and the contractors themselves. Clients have fuelled this by rushing to the market at short notice and taking the first adequate staff they can find, whatever the cost. It is not unknown for a team to start work within a week of the budget becoming available. This forces the agencies to dump all possible CVs on their clients' desks without sifting them properly, and frequently without telling the contractor.

Clients are likely to receive the same CV from several sources, though this no longer seems to bother them as it did a few years ago. They tend to take the first one presented, so they encourage the agencies in their bad habits. Contractors may well accept a job and then withdraw from it at the last moment, or get two offers and try to play the agencies off against one another.

It is not clear where this market is going. Some of us have expected the bubble to burst for years, but despite quiet patches it seems to go from strength to strength. Those agencies that would like to improve their services by filtering the staff put forward more carefully are finding the clients unreceptive.

Some companies are concentrating their efforts on training up their own project management and paying it properly. Those that fail to come up to this are released into the contract market from which they can hire the more junior staff when they need them. Other large companies are developing internal consultancy groups that sidestep the hierarchy problem and keep the more senior jobs in-house.

The effect of the decline in the flow of young people fresh from school will also be interesting. One of the most obvious pools of underused resources is the older professionals, both contract and permanent, whose skills have become out of date but who may have the experience to pick up new techniques quickly.

Finally, what will be the effect of 1992? Germany allows no recruitment agencies at all, everything being controlled by a government department. Most other EC countries have some restrictions. Britain's recruitment industry is probably the most developed and dynamic in Europe and well placed to take advantage of the relaxation of restraints. Many agencies already place people in overseas markets. It will be interesting to see if they can move the European market towards the UK model.

John Mole makes a plea to employers

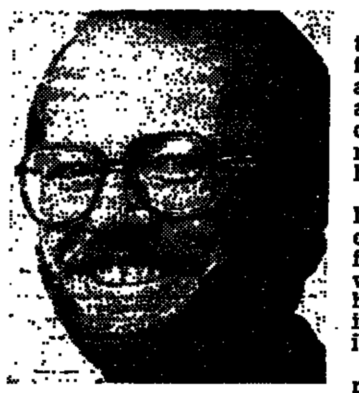
Try the temp test

"TENERIFE OR Davos this year? You could do both as the chief accountant of our Midlands engineering company." Or "How's your golf? Our new personnel director will have time to play every weekend."

Not many appointments are advertised on the basis of what you can get up to when you're not doing the job. Except for temporary employment.

Sick pay, holiday pay and the freedom not to work are the main attractions of temping, if the posters and newspaper advertisements are anything to go by. I wonder what companies who use the agencies think about employing people who are only interested in their time off.

Perhaps the agencies feel they have have no choice. I had had 11 temporary jobs when I wrote Management Mole, most of them with large, well-known companies. In my experience, the treatment of temps is generally so bad that the agencies would fall foul of the Advertising Standards Authority if they tried to sell temping on the rewards and satisfactions of the work itself.



John Mole

It was certainly not the fault of the agencies. The 30 or so I registered with, including all the major ones, were very professional. I did not come across a single interviewer who was not skilled, courteous and considerate. They were also mindful of their clients. It was extremely hard to get a job in which I had no experience.

The problems start when you turn up for work. With a few exceptions, the treatment of temps by employers is demotivating, discouraging and often downright discourteous.

It starts with the simple things like not being told where to hang your coat or where the coffee machine is. In one large bank in the City you need a pass to get out on the landings where the toilets are. But temps are not issued with passes.

I had to borrow one from the woman at the next desk. It was either that or ring a bell like a fire alarm to be let back in. The eerie feeling of being a non-person, an untouchable, took a few assignments to get used to.

Temps are rarely asked to meetings. At one large insurance company where I worked a meeting was called to explain a new procedure. Of course I was excluded. The job most affected was mine and I got into trouble the next day for not following it.

Despite what the advertisements say, most temps I met were not pretty girls saving up to go on safari. There were men and women made redundant who were trying out a new profession or looking for permanent work.

There were mothers who wanted to work only in term time, easing their way back into the job market. There were students getting work experience as well as money at night or weekends or vacations. And overseas students here to study or working their way round the world.

I came across plenty of artists earning a living and actors resting between auditions. (You almost need an Equity card to register with the agencies round the Aldwych.) And there were full-time career temps who simply preferred being independent and self-employed.

Temping embraces all levels expertise and earning power. Being an ex-general manager with an MBA, I was unqualified to do anything useful and floundered around the bottom of the labour pool at £3.50 an hour.

But although I was not in their league, I came across accountants, surveyors, architects, programmers, systems analysts, who earned considerably more. The pool of temporary labour is rapidly expanding. There seems to be a cultural shift towards self-employment, encouraged by personal pensions.

Companies use temps for more than holiday cover or during a flu epidemic. One-off projects like automation, establishing a new activity, or opportunistic pieces of business like privatisations need a workforce that can be hired and fired at a day's notice.

I worked for several weeks in a high street bank helping to sort out a systems catastrophe that followed Big Bang. One well-known mortgage company had a policy of employing temps in 80 per cent of its posts – until its auditors grumbled.

Many employers use the temp market to recruit permanent staff. It is cheaper and more reliable than advertising and interviewing and saves the awkward probationary period. I have been on both sides of the desk in that process. The pinnacle of my temping career was being formally offered a permanent job as an assistant reconciliations clerk.

It is in everyone's interest that employers learn to make the best use of their temporary staff. Most of the companies I worked for were throwing money away because of poor management. Whether a job is being done by a 10-day temp or a 10-year permanent, presumably it needs to be done well.

Many agencies give their temps codes of conduct and simple tips, such as "always ask for work if you run out," and "try to be pleasant and helpful with colleagues and supervisors." What was missing was an equivalent code of practice for employers.

What would such a code include? Obviously, hours of work and lunch facilities. A brief description of what the company did would also be useful. The meat would be a description of what the job entailed, expected standards of performance, how it fitted in with the rest of the organisation, names of immediate colleagues, key people and an organisation chart.

It would not have to be a formal document. Indeed, a hand-written checklist would be better, filled out by the new employee's supervisor during a 15-minute discussion. Does this sound like common sense? The main characteristic of common sense is that it is uncommon. Only once did I come across anything like it.

The immediate result is that employers would get better value for money from their temps. If the habit spread, agencies might be able to attract staff for what they are being employed to do. But I am sure it would not stop there. A regular checklist would be a sell-out among the permanent staff, too.

It is not only temps who are unproductive because of a lack of the simplest, most basic practices of people management. I found that the way temps were treated was symptomatic of the management style that pervaded the whole company.

If the permanent employees were surly and uncommunicative to me, they were the same to each other. If they could explain my job to me, they understood their own. If they motivated me, they were motivated themselves.

It does not matter whether a person is there for three weeks or three years or 30 years, he or she is paid to do a job and to have the same desire to do it well. We are all temps in the long run.

The author was general manager of an American bank in London. Management Mole – Lessons from Office Life is published by Bantam Press.

Company cars are more than a mark of status, says **Michael Dixon**

The appeal of four-wheeled perks

NO PERK is more jealously sought-after than the company car. "The class of vehicle a job carries is a topic of supreme interest," said a personnel director of a big company. "The reason isn't just the price, performance and comfort. It's more than a mark of status. While it may be sexist to say so, company cars have become an executive virility symbol."

The personnel chief was speaking particularly of Britain where organisations appear to be the world's most generous with four-wheeled perks. But they are becoming an increasingly important element of the rewards of managers and key specialist staff in advanced economies at large.

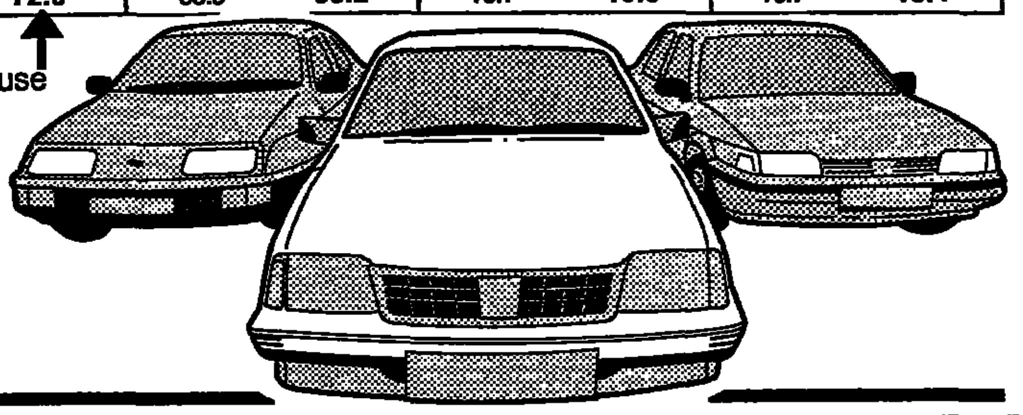
It is commonplace for employers to have official pecking-orders, dictating which models with what extras such as power steering are appropriate to each rank of the hierarchy. The vehicle is often supplied in addition to subsidised travel to work by public transport, and some companies award executives a chariot of the ordained quality even though they are not able to drive.

As the award of a company car has become become more and standard, high-rankers have been attaching growing importance to an associated type of perk. It is the entitlement to "free private use" of the vehicle, in the sense that the company pays all direct costs of non-business motoring although, in several countries, the employee is taxed on the assumption that some private journeys will be made.

The extent to which cars (or allowances in lieu), and free private motoring are enjoyed by managers in 16 European countries is shown by the accompanying table. It is compiled from the *latest of the management-rewards* surveys made annually by the Brussels-based Executive Compensation Service consultancy, which is part of the international Wyatt group.

	Chief executives		Other top management		Middle managers in sales & marketing		Other middle-rankers	
UK	93.0	76.4	94.5	75.6	97.7	67.1	79.1	54.8
Finland	92.9	85.5	73.8	60.6	78.6	69.2	42.9	34.3
West Germany	85.4	65.3	78.0	51.9	70.7	51.2	41.5	28.3
Norway	100.0	96.3	83.7	79.7	60.0	41.0	30.0	28.3
Portugal	80.0	78.0	78.3	72.3	75.0	63.3	40.0	38.0
Netherlands	77.8	50.3	71.9	41.0	75.6	38.3	40.0	24.8
Greece	90.9	90.9	63.6	63.6	72.7	64.1	36.4	36.4
Belgium	93.9	52.6	79.6	42.7	61.4	27.3	28.1	14.1
Denmark	80.0	71.1	77.8	70.3	73.3	66.9	20.0	19.4
Sweden	70.0	59.9	73.3	64.1	50.0	40.7	40.0	26.4
France	84.6	58.3	70.1	49.2	56.4	35.3	17.9	12.7
Italy	76.7	37.4	65.9	22.2	53.5	20.2	25.6	8.2
Spain	86.7	76.1	74.4	61.5	46.7	38.3	13.3	12.2
Austria	82.4	64.9	66.7	46.7	58.8	35.9	11.8	7.7
Switzerland	69.8	57.7	58.1	45.7	48.8	30.9	18.6	15.0
Luxembourg	83.3	72.0	63.9	50.2	16.7	10.3	16.7	13.4

% with car
% with free private use



The full study, made around the start of this year, covered nearly 3,600 board-level as well as untold numbers of middle-rankers employed by almost 1,000 organisations. Countries are ranked in the table by how widely cars are awarded to executives of all levels.

In addition, the study enables rankings to be produced of the makes and types of vehicle most used by Europe's board-rank managers. But since such "league tables" are apt to be contentious, not least among motor-manufacturers, it is worth explaining how the rankings have been compiled.

ECS asks each company providing data to name the types of cars it favours. Some are of course named more often than others, and the study distinguishes between four orders of frequency of mention. The rankings are made by awarding two points to types mentioned most often in each country, 1⅔ to those in the second most often category, 1⅓ to types in the third, and one to those in the fourth. Where makes and models are placed depends on the percentage they score of the total points available. (See table, top right).

As vehicle prices and running costs are not constant internationally, the costs companies incur in providing cars vary considerably from land to land. So does the importance of those costs as an element of total outlay on executive rewards. An idea of the variances is given by taking the average cost in each country of providing chief executives' *cars and calculating* it as a percentage of the chiefs' average total money pay, as follows:

1	Portugal	24%
2	Finland	17%
3=	United Kingdom	13%
3=	Sweden	13%
5=	Netherlands	12%
5=	Spain	12%
7=	Belgium	11%
7=	Denmark	11%
9	France	10%
10	West Germany	9%
11	Italy	8%
12	Switzerland	7%

While company cars may be still expanding as an executive benefit east of the Atlantic, however, there are signs that US employers are beginning to cut down on the four-wheeled perk.

Ranking	*Manufacturer*	*% of mentions*
1	Audi	13.1
2	Ford	12.4
3	BMW	11.5
4	Renault	10.3
5	Volvo	9.8
6	Mercedes	9.7
7	Opel/Vauxhall	6.8
8	Saab	5.1
9	Peugeot	4.1
10	Lancia	3.5
11	Citroën	2.8
12	Alfa-Romeo	2.0
13	Rover	1.8
14	Honda	1.7
15	Fiat	1.4
16	Mazda	1.4
17	Volkswagen	0.8
18	Nissan	0.6
19	Toyota	0.5
20	Jaguar	0.4

On the same basis, the ranking of the top 21 types of vehicles was as follows (in cases such as Audi 100 and Ford Scorpio/Granada the scores cover all cars in the name range regardless of differences in trim and even engine size):

Audi 100	12.4
Ford Scorpio/Granada	8.7
BMW 5 series	8.1
Mercedes 200 series	7.1
Renault 25	5.8
Volvo 700 series	5.5
Volvo 200 series	4.1
Peugeot 505	3.5
Ford Sierra	3.4
Saab 900	3.4
Opel/V Rekord/Carlton	3.2
BMW 3 series	2.9
Mercedes 190	2.3
Opel/V Omega/Senator	2.1
Renault 21	1.8
Lancia Thema	1.8
Renault 9	1.5
Saab 9000	1.5
Citroën BX	1.4
Citroën CX	1.4
Lancia Prisma	1.4

A study of over 200 organisations there made recently by the Runzheimer International consul*tancy showed that, of the* biggest employers in the sample, 19 per cent had reduced the number of executives receiving a car. The same was true of between 8 and 14 per cent of the various groupings of smaller organisations. There was also a trend among companies of all sizes to downgrade the models of car supplied to each management rank.

"More and more companies seem to be deciding that downgrading models can produce a pretty good saving," said a Runzheimer International spokesman. "Top people who used to rate a Cadillac are being told they must make do with an Oldsmobile. Those who got an Olds now get Chevrolets. As for those who had Chevvys – maybe all they'll get is a Yugo."

Job mobility

A case for going to consultants

THE PROSPECT of internationally widening opportunities for managers and key specialists is far from an unmixed blessing to all executives. To those responsible for meeting their organisation's needs of human skills, for example, the broadening of individuals' career horizons promises to make already knotty problems worse still.

"There's only one sort of people who think it's easy to get someone to take a job that means moving home, and that's people who don't have to do it," snorted the human relations manager of a multinational group. "From the way our top executives behave, you might think they're convinced that they only have to make a new plan for the kinds of people it requires to be on hand to implement it.

"But the truth is that getting them can be the very devil of a task. It's not just ensuring you have enough people of the sort who, when you look in one of their ears, you don't see daylight out of the other. Whatever your organisational strategy might be, it won't work properly if the balance of skills and attitudes in your workforce doesn't suit it. That's why so many top-management plans go wrong, particularly when they involve a change of course."

Given the signs that the need for organisations to change tack will become more frequent, the need to develop and maintain an appropriate workforce looks likely to be increasingly decisive. The difficulties of doing so – which, as the human relations manager added, are bad enough in times of high unemployment – can only be made more severe by the trends discussed in the opening article of this survey. And the difficulties seem sure to be especially taxing for organisations too small to employ a specialist, like the man quoted, in ways of overcoming the problems of staff mobility.

His own main concern is international mobility, *for he* is responsible for the staffing of his company's operations in some four dozen different territories, whether by transfers from elsewhere within the company or by new recruitment either in or outside the country in question. He nonetheless accepts that the same task can be as pressing, albeit less complicated, in an organisation operating solely in its homeland.

"In some ways, I can see the snags could be worse in a one-country operation because you haven't the intrinsic lure of foreign travel to help you to get people to uproot themselves and move. Even though the lure may not be as strong as it was before overseas places were made to seem so much closer by television, it's still a great help."

He added that purely domestic companies, like their international counterparts, are hampered by another developing trend. It is for promising candidates to have husbands or wives with good jobs in their present locality, and therefore it would be doubly difficult to persuade them to move home.

"I can also see it must be tricky to fix up a pay package the company can afford that'll get them to change regions, especially with differences in property prices as they are. But I doubt it can be as delicate as conjuring up packages to persuade key people to go from one country to another, especially when you have expatriates working on the same level as locally appointed folk.

"It's true you can buy survey data on pay going-rates for most places you need to know about. But you still have to translate the data in the light of what your own particular company needs and can pay for, which is hard enough even for someone with specialist experience. So what it must be like for small company bosses with a lot of other things on their mind doesn't bear thinking about.

"Fortunately though, now mobility's become a crucial problem, a fair number of consultancies have been setting themselves up to deal with it. There are some that, once you've decided on a recruit, will take all the chores of dredging up details the person wants-about schools and housing and all the rest of it off your hands. Although I've heard they're expensive, they can be very useful – and I'm not saying that just because they might be an alternative source of employment in case of need for specialists like me."

Michael Dixon

SECTION IV

FINANCIAL TIMES SURVEY

The crash, a temporary setback in the growth of the global securities market, has provoked a reappraisal of many firms' strategies, writes Euromarkets Correspondent **Stephen Fidler**. But in correcting previous excesses it will be important not to abandon valuable practices and instruments.

INTERNATIONAL Capital Markets

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Illustration: Simon Stern

Don't throw out the baby

IT HAS been a year for stripping away pretensions: a year in which many in the securities business – like the successful bond trader in Tom Wolfe's book about New York – will have been forced to commit their vanities to the bonfire. Like the meanest of unfashionable smokestack industries, the global capital market suffers business cycles.

A crash of unprecedented proportions on stock markets across the world has had devastating effects. Yet, in the words of the Bank for International Settlements: "Surprisingly, in view of all that happened, world economic prospects in the spring of 1988 present a picture not strikingly different from a year ago."

Perhaps, as it says, the linkages between the real and financial world are weaker than in the past.

Within the financial markets, though, there has been a significant reappraisal of objectives. In some areas, the crash merely acted as a catalyst in highlighting unconnected problems. In others, it directly affected profits, sometimes devastatingly.

The underlying assumptions of many firms' strategies have been called seriously into question. These often depended heavily on the process of securitisation – where the securities markets, rather than banks, intermediate between users and providers of capital – and on a perceived globalisation of the financial markets.

Little private-sector capital raising was done, except through the banks in the months following the crash; and investors, having scurried home to domestic markets, have been loth to emerge again on the international scene.

Yet it would be wrong to claim that securitisation had somehow stopped, and that the internationalisation of the capital market has suffered anything more than a temporary setback. Neither are developments which can be completely unwound.

As the Bank of England remarked in its May Quarterly Bulletin: "Rather than a reversal of securitisation as a whole, there may be a return to large and liquid bond issues, to domestic markets and to security issues with bank back-ups. As a result there may be only a partial shift in the locus of intermediation back to banking."

For its part, the BIS concludes that it is "unlikely that the contraction of the international securities markets was more than just a temporary phenomenon." The reason is, it says, "the increasing osmosis between the national and international financial markets."

Assessments are certainly more cautious than before the crash, however, and the result has been a tempering of ambition. As a report on the international capital markets by KPMG, the accountancy and consultancy group, notes, after interviews with some 150 senior executives in the business:

"From wishing to be one-stop providers of financial services, many institutions are now focusing on one (or maybe a few) markets where they can offer a distinct service or can exploit a particular advantage."

In view of the unprecedented volatility affecting all the international markets, it is remarkable that firms have had the luxury to make this studied reappraisal. Indeed, by common consent, the markets have shown great resilience.

From the point of view of participants in the markets, what has happened over the last 18 months has revealed significant shortcomings in their management of risk and of performance. Their attempts to address these shortcomings are bringing about the shifts in strategy.

There are numerous examples of firms having simply underestimated the risks of what they and their clients are doing. One consequence has been underpricing, which is encouraged in any case by the heightened competition in many markets, including London, as they open up to foreign participation.

It was seen forcefully in the collapse of the perpetual floating-rate note market in Europe, and the subsequent loss of liquidity in the market for dated floating-rate notes issued by banks.

Traders and investors had clearly underestimated the risks of holding such instruments, the aggressive pricing of which had resulted from over-optimistic assumptions about their tradability in the secondary market. In the demise of this sector alone, there was a strong impetus forcing many borrowers into other forms of floating-rate finance, either to the short-term markets, such as Eurocommercial paper, or back to the banks.

Not only in this field, however, were over-optimistic assumptions about market liquidity made. In stock markets worldwide, international and domestic investors over-estimated their ability to sell their holdings of shares at prices close to those being currently quoted.

Thus foreign investors were over-invested in many smaller markets before the crash, and post-crash are doubly cautious about reinvesting in these markets, many of which were in Asia and Australasia, where liquidity proved wholly inadequate.

This "liquidity illusion" was not limited only to the small markets. Technology and shifting patterns of share ownership had thrust more and more power into the hands of institutional investors, and this had not been fully recognised even in the largest marketplaces.

Techniques used in the US – such as portfolio insurance, in which the value of portfolios would be protected as the stock market fell by the sales of shares or of stock index futures – simply made false assumptions about liquidity and helped to set in train a destabilising cycle of selling.

The idea of such low-cost protection of the value of equity portfolios, now widely discredited, may have played a part in building up the institutional holdings of equities to unprecedented and unsustainable levels. This may continue to hurt equity market performance even when market fundamentals appear strong.

Risks were also often under-estimated or incompletely understood by financial engineers and innovators. Thus, Merrill Lynch lost $275m in a short period early last year, in its mortgage securities business in the US, from the effects of a rise in interest rates. Other firms have suffered in the options markets.

Investors were also inclined to take for granted some of the supposed innovations, the complicated structures of which allowed large returns to their creators at the expense of investors or issuers. They are now taking a harder look at these "innovations", and so there are fewer about.

The rapid growth of the capital markets also resulted inevitably in slack management control and poor performance assessment in many business areas. In their responses to the KPMG survey, only 26 per cent of senior executives at some 150 institutions worldwide said they were satisfied with their performance control techniques.

Attempts to gain more control have led firms to rein in some departments, occasionally resulting in resignations or firings. Many New York securities firms have attempted to impose more head-office control over their London operations, causing some friction.

This reassessment has naturally caused some firms to retrench, and jobs have been lost in both London and New York, although not, it must be said, in Tokyo. Many firms have looked again at the Eurobond market, some deciding to pull out of a business where returns have been consistently inadequate and where they are likely to continue to be so. Capacity has been reduced in the equity market too, in many centres, partly a result of the significant effect that losses last year had on capital.

Last year's losses resulted in a significant erosion of capital at a time when capital adequacy is becoming of heightened importance for securities firms. New rules introduced in Britain under the Financial Services Act make it essential that, in London at least, firms are more aware of the true capital costs of doing business. While there are those who believe that this new regulation will affect London's position as Europe's premier financial centre, it seems likely that the UK will be used as a model elsewhere in the European Community in the prelude to capital liberalisation in 1992.

In some cases, the question of capital shortages will be addressed by mergers and acquisitions. This seems likely in Europe, prior to 1992. In the US, the expected abolition or continued erosion of the Glass-Steagall Act may provide for a recapitalisation of securities firms through acquisitions, perhaps by regional US banks, or even the Japanese.

In Japan, the equivalent of Glass-Steagall – Article 65 – seems unlikely to outlive the US act by much, holding out the prospect of a reorganisation of financial intermediaries with far-reaching implications internationally.

Continued on Page 2

INTERNATIONAL CAPITAL MARKETS 2

Ripples continue to be felt from the stock market crash last October

Why the fund managers are sitting on their hands

SINCE THE October crash in world equity prices, investors have been gripped by two dominant and opposite fears.

The first was that the crash would create a recession. The huge fall in equity prices reduced the wealth of the investing population, and it was thought that this "wealth effect" would work through into lower consumption and output.

This view has now petered out, faced by economic data to the contrary since the beginning of the year from the major economies. It has been replaced by the second dominant fear – that buoyant consumption and output will lead to a rise in inflation, because economic activity will be *too* strong.

The yield curve in bond markets around the world has steepened appreciably since this view began to take hold. The behaviour of the US Federal Reserve, the US central bank, in engineering a rise in short-term interest rates has lent *de facto* credibility to those fears.

Yet the twin fears of recession and inflation have been the outward expression of an even darker and inwardly held concern: the fear of commitment in an age of expectations diminished by the events of last October.

The stock market crash was, to the psychological well-being of investors, analogous to dropping a very large rock in a very big still pool of water. Months later, the ripples continue to be felt.

The even darker fear of commitment in an age of diminished expectations

This has fuelled investor uncertainty over the economic outlook, and led to movements in financial markets being exaggerated.

Salomon Brothers, the US securities house, recently estimated that to move the Dow Jones Industrial Average a point in either direction now takes half as much demand for US shares as in the giddy pre-crash market. Anecdotal evidence in London suggests a similar pattern for shares and gilt-edged securities.

The markets, however, have failed to respond with any degree of conviction to a changed economic outlook. The US economy, indeed the world economy, has confounded the expectations of post-October pessimists and continued to grow at an impressive rate.

According to the International Monetary Fund, in its latest World Economic Outlook, world output last year is now thought to have expanded by around 3 per cent, with the US growing by nearly that rate, and Japan and West Germany expanding by 4.2 per cent and 1.7 per cent respectively, and the UK by 4.5 per cent.

Moreover the growth has been achieved with fairly stable prices. The gross domestic product deflators (the best measure of domestically-generated inflation) of the industrial countries rose by 2.7 per cent in 1987, and are projected to rise by 3 per cent this year and 3.1 per cent in 1989.

The latest forecasts from the Organisation for Economic Co-operation and Development are broadly in line with those of the IMF. Unlike the IMF, however, the OECD also breaks its forecasts down on a half-yearly basis.

This predicts that growth in the OECD will expand by 3 per cent this year, but that there will be a marked slow-down in the second half of the year. The Bank of England, which makes half-yearly forecasts of the major economies, endorses this view. In its latest Quarterly Bulletin, it projects a 2.7 per cent growth in output for the six major economies, but says that by the fourth quarter the major economies will be expanding by only 1¾ per cent.

At the same time, as growth slows, there may be signs that inflation is on the rise. According to the OECD, it will rise steadily in the US and Japan, but be set on a downward trend in Europe. A scenario of slower growth and higher inflation is not propitious for financial markets.

This more restrained outlook for the second half of this year sits uncomfortably with the other major world event of that time: the US presidential election. If an underlying cause of the October crash was the failure of the Reagan Administration to come to grips with the US budget deficit and its reflection in the US balance of payments, then the prospect of a new administration has done little to allay the fears of financial markets.

The Republican front-runner, Vice President George Bush, is implicated in the current Administration's economic policies, while those of his likely Democratic opponent, Mr Michael Dukakis, are too little known to have had much impact apart from adding to the confusion. Likely US policy is subject to as much uncertainty as it has been to a lack of leadership.

As the IMF put it, somewhat gravely: "Over the medium term, the international economic prospects are affected by the persistence of serious financial disequilibria, and by uncertainties about how governments and private economic agents will respond to them."

The serious financial disequilibria are, of course, the US budget deficit and its trade and current account deficits. The latter are reflected in the external accounts of Japan and West Germany, and the newly industrialised countries of mainly north-east Asia.

There has been a large improvement in the external position of the above protagonists. The US current account deficit, as a percentage of US gross national product, is projected by the IMF to fall from a high of 3.6 per cent of GNP to 3 per cent this year, and 2.6 per cent in 1989.

For the surplus countries, a similar story can be told. Japan's current account surplus now appears to have peaked at 4.3 per cent of GNP in 1986. It fell to 3.6 per cent last year, and the IMF expects it to fall to 2.7 per cent this year and 2.5 per cent in 1989. Likewise West Germany, where the current account surplus peaked in 1986.

In the case of Germany, however, the process of adjustment has been slower than in Japan. While the IMF forecasts that Japan's surplus will halve as a percentage of GNP, West Germany's is expected to fall by only a third, from 4.2 per cent in 1986 to a projected 3.1 per cent in 1988.

Finally, an improvement in the collective surpluses of the newly industrialised countries – Taiwan, South Korea, Hong Kong and Singapore – is also seen to be occurring. Their surplus is thought to have peaked as a percentage of GNP in 1987 at 11.5 per cent, and is projected to fall to around 7.5 per cent by 1989.

Although the above indicates that the movement towards addressing the imbalances is going in the right direction, the question remains whether it will happen fast enough for the liking of financial markets.

Foreigners seem to have little appetite for US assets at the going rate

There is a real improvement taking place in US trade, but it seems to promise little relief at the level which currency markets operate – the monthly nominal and unseasonally adjusted trade figure level. Economists estimate that exports have grown at least twice as fast as imports, simply to keep the nominal trade deficit from widening. This is hardly propitious for the dollar or financial markets.

Foreigners seem to have little appetite for US assets at the going rate, and there is a limit, possibly already reached, to which foreign central banks will be willing to finance the nominal US current account deficit through purchases of US Treasury bonds. The acquisition of an estimated $140bn of US securities last year by foreign central banks had its counterpart in rising domestic money supplies of Germany, Japan and Britain.

These countries are concerned to see that their domestic prices remain stable, and a large question-mark hovers over their resolve to repeat last year's spending spree in the currency markets.

With such uncertainty surrounding the medium term for growth, inflation and the dollar, there is little wonder that fund managers have decided that the safest strategy of all is to sit on their hands and take the returns offered in the money market.

Simon Holberton

Eurobonds

Slowdown still leaves market robust

ANNOUNCEMENTS that one securities house or another has withdrawn from this or that sector of the Eurobond market, or even pulled out of the business, often appear these days.

But the impression that the Eurobond market is coming apart at the seams is belied not only by the volume of new issues, but also by secondary market turnover. Both seem to be holding up surprisingly well.

It is easy to confuse the Eurobond market's difficulties with those that have beset the City of London since last October's stock market crash.

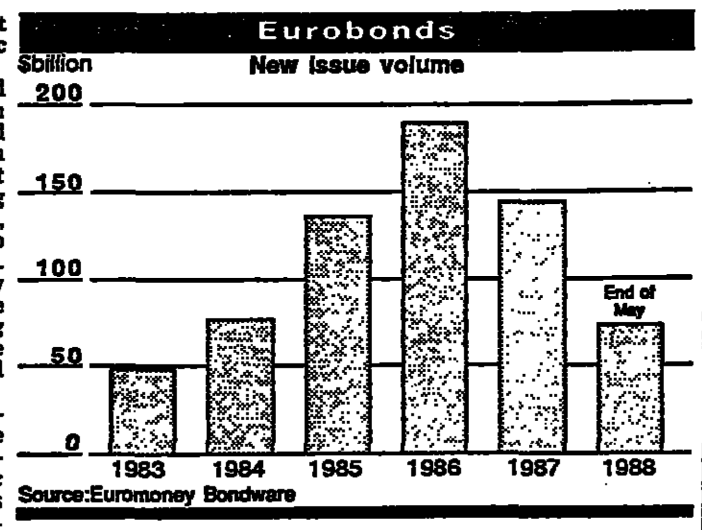
What the crash did was *accelerate* the rate of closures of Eurobond departments, because it led management to examine more closely the performance of all their businesses. But it had been clear that the market was overcrowded for at least the previous 18 months, and withdrawals from, particularly, the floating rate note sector had gathered pace early in 1987.

At the same time, however, participants in both the new-issues market and the secondary market were taking steps to curb the effects of the overcrowding. Pricings of new bonds dictated purely by competition for mandates (and without regard to investors' tastes) were going out of style.

Meanwhile, the Association of International Bond Dealers (AIBD), the secondary market body, was busy constructing trading rules to allay investor worries about the unmarketability of bonds launched, and subsequently forgotten, during the issuing boom of 1985 and 1986.

Since the crash, Eurobond volume has looked rather robust compared with some domestic capital markets.

New-issue volume bounced back in the first quarter, from the depressed levels reached towards the end of 1987, which kept the yearly total down at only $144bn, to a healthy-looking $44bn. On an annualised basis, that puts the market on course to match 1986's record $183bn. Meanwhile, AIBD figures show secondary market turnover at the end of the first quarter standing at about $1,180bn, roughly the same as in the comparable period in 1987.



Source:Euromoney Bondware

However, though the doomsters may have been precipitate in writing off the Eurobond market, it has undergone traumatic changes that make the market's ebullient confidence of the mid-1980s, for the moment at least, a thing of the past.

For instance, if one looks at the overall level of international bond issuance, it is clear that the Eurobond market's share of the $58.3bn raised in the first quarter has diminished. An indication of this was that Salomon Brothers and Goldman Sachs, both extremely active in the US domestic market during the first quarter, launched just one Eurobond apiece in the first three months.

A fundamental problem in the way of boosting overall Eurobond market volume has been international investors' continued jitters over the dollar. It is hard to see the various currency sectors providing the kind of growth rate once seen in the Eurodollar sector, albeit that they have expanded dramatically over the last two years.

Despite the steadier tone of the US unit in the early part of the year – which allowed 52 straight Eurodollar deals to be launched in the first quarter – the dollar's overall share of the market was still near record lows. In that period, dollar bonds accounted for just 29 per cent of total volume, little changed from the record-low 28 per cent in the last quarter of 1987.

Moreover, the section of the Eurodollar market which in the past contributed most to volume – the floating rate note market – has dried up. There has been persistent lack of buying interest since FRNs fell prey to a liquidity crisis 18 months ago (which partly arose from an over-supply of too-aggressively priced deals for bank issuers).

This has meant that borrowers in search of floating rate funds have achieved them by the indirect route of issuing in the fixed-rate market, and swapping the proceeds. However, the limitations of the swap market have meant that issues have been smaller in size than the "jumbo" deals once common in the FRN market – where the UK raised $4bn at one stroke in 1986.

A further constraint on the Eurobond market has been the conservatism of investors. One result of the rampant issuing volume of a few years ago was that they became less and less willing to buy bonds for marginal names. This trend can only have been enhanced by the "flight to quality" after the stock market crash.

This has meant that natural borrowers of fixed rate dollars – US corporations – have often found it much cheaper to borrow in the domestic market than to come to Europe. According to Salomon Brothers, US issuers accounted for just under 7 per cent of total first quarter issuance, well below the market share of 20 to 30 per cent they have traditionally held.

A further effect of investor conservatism has been that so-called innovative bonds (whose *raison d'être* is to lower the borrowers' costs of funds) have come to be regarded with suspicion. Apart from various pseudo-private placements – which incorporate "exotic" structures designed to fit the cash flow needs of, particularly, Far Eastern investors – almost all bonds over the last year have been of the "plain vanilla" variety.

Meanwhile, interest rate uncertainties have meant that investors have become more and more wary of extending their exposure very far along the yield curve. For about a year, an increasing number of bonds with maturities of below five years have been *appearing, culminating recently* in the one-year Eurobond.

That said, it has nevertheless been a notable feature of this year's market that continental investors have again looked at Eurodollar bonds every time the currency has shown signs of stabilising.

This is good news for the market, because retail European investors tend to be firm holders of bonds. However, some suggest that the placement that so many of this year's bonds are supposed to have found may have been more talked about than real. As well as European retail, new issues have also frequently been bought by semi-professional Middle Eastern accounts, who are notoriously trading-orientated.

But even if new issues houses have managed to issue bonds that are actually saleable, and so prevented them from clogging up underwriters' books, this does not necessarily mean they are making any money out of the business.

This is because borrowers' cost-of-funds targets have often been achievable only by the addition of highly attractive swaps. To some extent, this has been achieved by sophisticated financial engineering. But just as often, market participants say, it has resulted in what are effectively subsidies of borrowers' costs of funds – bringing into question the market's frequent claim that cut-throat competition between issuing houses is now a thing of the past.

As far as writing cheques goes, the finger of accusation (fairly or unfairly) has often been levelled at the Japanese houses, who managed to gain about 25 per cent of the new dollar issuance in the first quarter – well up on their market share in 1987.

However, the Japanese, at the same time, have been the main providers of profits to the rest of the market, by issuing a constant stream of equity warrants bonds for Japanese companies, most of which have immediately jumped to premiums.

The revival in these issues this year has meant that, despite the inactive Euroyen market, Japanese securities houses still bestride the upper echelons of the book-runners' league tables. Last month, all four of the main houses featured among the top ten book runners – Nomura in first place with more than 9 per cent of the market. Its nearest rivals, Crédit Suisse First Boston and Deutsche Bank, had less than 8 per cent apiece.

Clare Pearson

Though the "Belgian dentist" is still operating...

More sophisticated investors are now calling the tune

FOR MANY Eurobond investors, 1987 was a year of anxiety and trauma. Alternately terrified and relieved as reports of the market's imminent collapse proved premature, they have emerged into 1988 somewhat shaken but immeasurably wiser.

After years of proxy participation, blithely accepting the assurances of market professionals, investors have finally learnt to exercise their prerogatives: to pick and choose, or merely to sit on the sidelines.

This new breed of investor presents a real challenge to Eurobond syndicate managers. It is now no longer the borrower, but the investor, who must be wooed and cajoled. As the rather esoteric character of so many new bond issues seen so far in 1988 would seem to indicate, syndicates are slowly learning that it is now investors who are calling the tune.

The last few years have seen the Eurobond investor become more sophisticated, much as the market itself has matured with the parallel burgeoning of interest-rate and currency swaps, options, futures and other wonders of financial engineering.

However, the image of the relatively naïve small retail investor, who provided the market's first client base, is a vivid one which persists today. He is the mythical "Belgian dentist", a tax-averse Continental individual of high net worth. In the market's early days, it was largely this type of investor that was attracted by new offshore securities, which offered a lucrative yield premium over government bond markets and a Luxembourg paying agent, with no further questions asked.

In the heady days of the bull market, this apparent lack of strategy did not appear particularly naïve. Fund managers concede that even the institutions that first dabbled with Eurobonds displayed the same unquestioning confidence in committing their funds to virtually any issue on offer. Eurodollar bonds were snapped up and locked away in portfolios; next in line, came the other "hard" currencies – Deutsche Marks and Swiss francs.

But as the market developed, it became apparent that these rudimentary strategies would have to alter. The change was eventually precipitated by the US dollar's fall from grace. The dollar's decline began after the Plaza Agreement of 1985, although the definitive end of its reign as the supreme Eurobond market currency did not come until early 1987.

Issuance of Eurodollar bonds, which had once accounted for around 70 per cent of all portfolios, fell dramatically and investors started to look elsewhere – for the first time, at markets where the risk was greater but potential gain was also increased. In the vanguard of this flight to higher couponed currencies, according to syndicate managers, were the smaller retail investors.

That the Belgian dentist still exists in some numbers is indicated by the comprehensive list of Eurobond prices displayed in most banks in West Germany, the Benelux countries and France, and by the huge variety of Eurobond tip sheets available there.

However, according to an official at Kredietbank Luxembourgeoise, the last 18 months has seen these investors elect increasingly to operate through unit trusts or funds. Although there is a small premium to be paid for the use of this route to the market, the funds at least maintain the tax advantages previously enjoyed, while providing the full range of risk-assessment techniques that are now so vital but, practically, remain available only to market professionals.

This year's star performer has been the high-yielding Australian dollar sector

It is largely this sea change in investor preferences that has propelled the higher couponed currency sectors to the prominence they have enjoyed so far this year. The Canadian dollar sector has traditionally been the first refuge of the disaffected US dollar investor. However, the even higher yields available in the Australian dollar sector, coupled with an improved perception of Australian economic fundamentals, have made that sector the star performer of 1988 so far.

The popularity of European – initially West German, but increasingly Benelux – borrower names in this sector is a strong indication of the paper's final destination. However, fund managers have detected increasing non-European interest in the higher couponed currencies.

Financial institutions all over the world have faced the same dilemma – returns have to be assured and maximised, but the costs of remaining heavily committed to the US dollar have proved crippling over the last two years. Fund managers are now obliged to invest at least a portion of their portfolios in the higher yielding bond markets.

An official at the London branch of a major Japanese house said Japanese institutions were *now racing to diversify* their fixed-income portfolios. He cited the example of a leading trust bank which had just moved to increase its holding of Australian dollar bonds to over 5 per cent of its total investments – a level he considered high, given a historic Japanese reluctance to invest in Australia's economy following a series of unhappy experiences.

Many fund managers said a more alarming development in the approach of larger institutional investors to the Eurobond market was their increasing caution and reluctance to commit themselves for long periods, despite healthy liquidity.

"The received wisdom is that we are nearing the end of an interest-rate cycle when real assets are outperforming financial ones, and investors are now only prepared to take an extremely short-term view on the market," said one manager at a major UK-based fund.

Investors' new-found caution, which contrasts so markedly with the enthusiasm they exhibited less than two years ago, has profoundly altered the task of syndicate teams who now have their work cut out if they are to bring a borrower to the market with a genuinely popular issue.

Catering for specific investor whims may well go some way towards explaining the succession of extremely novel issues seen so far this year, among them an unprecedented one-year Eurodollar bond. Although the issuers of such deals achieved extremely attractive cost of funds through swap transactions, their advantages for investors were less patent. The bonds appeared to have neither the yield advantages of a short-term money market deposit, nor the liquidity of a longer dated bond issue.

Nevertheless, the lead managers behind the deals said they had identified particular investor demand for the issues. Indeed, with so few investors apparently keen to bite, this might be a wise policy for most syndicates to follow.

However, such a shift in emphasis can only mean that the primary market will see more and more new issues aimed at specific, and often small, groups of investors – hardly a trend which augurs well for the return of liquidity and depth to the market in the near future.

Dominique Jackson

Don't throw out the baby

Continued from Page 1

Indeed, the Japanese may hold the key to the shape of the international capital markets in years to come. Helped by a powerful currency and sky-high price-to-earnings ratios, Japanese firms could come to dominate the international *capital markets*. Nevertheless, their ambitions may be constrained by increasing pressure for a level playing field in regulation and the cultural clashes they have encountered in setting up operations abroad.

To say these days that the stampede towards the "global marketplace" was somewhat overdone is only a statement of the obvious; but, in correcting the excesses of earlier years, it is important to make sure the baby does not go out with the bathwater.

The Eurobond market, for example, perhaps faces straitened times, but the capital being raised through it would have been unthinkably large even at the beginning of the decade. Some markets – such as that in Eurocommercial paper – have shown extraordinary growth in the last couple of years.

Currency and interest-rate swaps were true financial innovations that have added depth and breadth to the international financial marketplace. All of this means that, if investors need to achieve the best returns and borrowers the lowest cost of funds, to ignore the international markets would be no less than a dereliction of duty.

Syndicated loans

The welcoming arms of commercial banks

THE MARKET in syndicated loans is back. Its resurgence is one of the most notable, but least noted, developments in the international capital markets over the last 18 months.

The volume of publicly-announced syndicated credits, as recorded by the Bank of England, jumped to $88bn in 1987 from almost $30bn in 1986 and $19bn in 1985.

The early 1980s had been years of severe decline. Unprecedented inflation-adjusted interest rates had worsened the troubles of the traditional big borrowers in the syndicated loans market – in Latin America, Africa and Eastern Europe – and forced widespread reschedulings.

When interest rates began to decline, the bond market took many of the best borrowers away from the banks. The rapidly-growing floating rate note market took still more.

This trend towards raising money through the securities market appeared to be pushing commercial banks to the sidelines of the financial markets. But, in many ways, this apparent trend was exaggerated: banks were indeed still the final owners of many securities, particularly those issued by borrowers of lower credit standings.

Thus, in the note issuance facilities and similar financings, in commercial paper and in the floating rate notes that replaced syndicated loans, the final holders of much of the paper was still the banks.

When the securities markets themselves hit upon rocky times, the banks were ready to move in to fill the gap. The troubles in the floating rate note market, losses suffered by securities firms in trading some of the securities they had created and possibly did not fully understand, and then the stock market collapse of October, all pushed corporate borrowers into the welcoming arms of the banks, as alternative sources of finance dried up or threatened to.

Some of the loan market's attributes became more apparent and important in 1987. As Mr Rüdiger von Eisenhart-Rothe, managing director at Chase Investment Bank, points out: its availability depends neither on a positive outlook for currencies nor for interest rates. Very large sums of money can be raised. Maturity, amortisation schedules and the structure of the credits can be very flexible. Loan documentation requirements are far less rigid than is possible for any securities offering.

Nobody would claim, however, that the revived syndicated loans market bears much resemblance to its earlier incarnation.

In recent years, borrowers for the countries of the Organisation for Economic Co-operation and Development have accounted for the lion's share of all new credits: the figure was 85 per cent of syndicated lending in 1987. The big borrowers of the 1970s in the developing world and in Eastern Europe are no longer so much in evidence.

Furthermore, the credit market has taken over some of the innovation that was characteristic of the securities markets. Such new financial products as currency and interest rate swaps began to be built into loans.

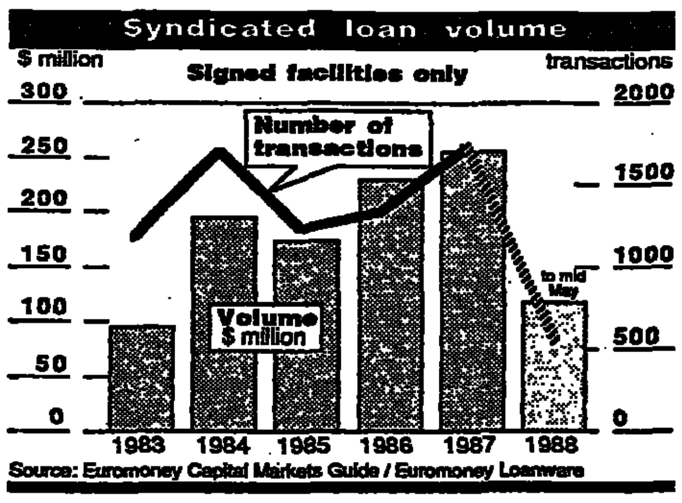
On top of that, a large number of new credits have been in the form of standby arrangements, often in the form of what is called a multiple option facility. Such MOFs are used to replace or add to existing lines of credit, or to act as back-up financings for commercial paper programmes. As their name implies, they provide the borrower with a number of financing options, often including the issuance of commercial paper.

The Bank of England has suggested that these facilities —as bank back-ups to securities issues – may be evidence of "only a partial shift of the locus of intermediation back to banking."

In fact, the distinctions, once marked, between the bond and loans markets are blurring. Says Mr Eisenhart-Rothe: "The loan and bond businesses have become very much closer together over the last few years than has publicly been recognised."

The secondary distribution of credits – an estimated $80bn market in 1987, according to Chase, which claims a quarter of the market for itself – is part of this trend. So is the growing practice of issuing bonds which are incorporated with a currency or interest rate swap, and thereby converted into a floating rate instruments and placed with banks. Mr Eisenhart-Rothe says that, on occasion, such asset-swapped bond issues, which can end up with the borrowers' lending banks, have put upward pressure on loan margins.

There is a focus, too, in both markets these days on distribution – the ability to place assets with final holders. Placing power is the key for many banks' continued interest in the business, since they are faced with intense competition which has pushed down loan margins and with tougher capital requirements.



Source: Euromoney Capital Markets Guide / Euromoney Loanware

The big US banks have dominated this business, and they have been very adept at pushing assets into the portfolios of Japanese banks. However, co-ordinated rules on capital adequacy have made the Japanese banks reluctant to be mere receptacles for such assets. They are becoming less inclined to take on low-yielding loans, a factor which may have contributed to some hardening of terms for sovereign borrowers over the last 12 months.

Indeed, Japanese bankers are themselves looking at their own home market to see if they can pass loan assets on to other financial institutions, those not subject to capital adequacy requirements. The long-term credit banks, for example, are well placed to do this, because they have been placing their own bonds for years.

If there has been a hardening of terms in the market for sovereign credits, there is also some evidence of at least a flattening out of the terms on loans to corporate borrowers. Nevertheless, there is a still a feeling – expressed most recently by the Bank of England in its latest Quarterly Bulletin – that there is inadequate credit differentiation in the credits market.

Noting that the October crash had little impact on pricing in the market, the Bank observed that strong competition "had resulted – in contrast to the bond market – in very low spreads over Libor, suggesting that risks may be, to a certain extent, underpriced."

It added a more specific warning about multi-option facilities: "There is, of course, a danger that tightly-priced MOFs will be drawn most heavily when market liquidity is tight, and at a time when the pricing of the MOF will be furthest out of line with prevailing market conditions."

Stephen Fidler

Peter Parker looks at the growth of cross-border mergers

Global muscles are flexed

CROSS-BORDER M&A has become the newest game in town. Every merchant or investment bank is keen to show its prowess: last year a UK merchant bank, S G Warburg, advised a US company, Fluor, on the $500m sale of its St Joe gold division, and found a willing buyer – in Australia.

The theory is simple: global industries need global advisers. The more companies believe in concentrating on core activities and disposing of peripheral ones, the more work financial advisers will gain running auctions, finding white knights and persuading companies to divest parts of their operations.

Add to that the emergence of the Japanese as significant buyers overseas, the high level of cross-border M&A in Europe, and the current profitability of financial advice, particularly when set against difficult conditions in other investment banking departments, and one can see why commercial, merchant and investment banks are scrambling to demonstrate their global reach.

Again, theory suggests that integrated investment banks should gain fees both from acting as a financial adviser and from arranging the funding. In practice, this is not always so, particularly among sophisticated customers. When BP bought out the remaining shares in Standard Oil, it chose Goldman Sachs to be its financial adviser and J P Morgan to organise a $5bn bank credit facility.

Since, with the exception of divestitures, companies can hardly seek tenders for M&A advice without alerting the world to their intentions, fees are inevitably an area where there are more valuable considerations than just price. For some deals that is true for the financing.

Mr Richard Kelly, managing director and head of M&A at First Boston in London, says: "For a plain vanilla financing, the costs to the issuer have come down as margins for the intermediary have been sharply reduced. However, an area which remains quite remunerative is in structuring and arranging funding for complex financing, such as highly leveraged deals where significant bridge financing is required and where only those intimately acquainted with the acquisition can properly assess the risks involved."

Inevitably, US houses dominate the market for acquisitions involving American companies. Mr Kelly says: "Advising British and continental companies on their US acquisitions has given US banks an opportunity to internationalise their relationships."

Thus, in the first quarter of this year, First Boston advised in 75 transactions worth some $48bn. Twenty-six of these had an international dimension, most of them a US or Canadian one.

However, First Boston also advised CIR, De Benedetti's holding company, on the sale of its Buitoni food operations to Nestlé for $1.3bn. In Spain it advised Banco de Vizcaya on its $3.3bn merger with Banco de Bilbao, which was advised by Salomon Brothers, both about the merger and about its earlier unsuccessful bid for Banesto, advised by Goldman Sachs.

Bankers identify two main cross-border markets – the frontier world of continental Europe and the mature market of America. In the US, according to W T Grimm & Co's Mergerstat Review, last year 220 US companies were bought up by foreign companies in disclosed deals worth $40.4bn. Of these, Britain accounted for 78, worth $23.5bn, and other European countries for 88, worth $6.4bn.

This is an under-estimate, as the UK corporate finance adviser J P Mervis has identified 314 US companies acquired by UK companies last year at a cost of around $28.4bn, or $26.3bn when divestments made as part of an acquisition are taken into account. But the actual figure is less important than the trend, and according to Grimm the value of deals rose from $5bn in 1982 to $15bn in 1984, reaching $34.5bn in 1986.

Since then, the buying spree has continued. In the first quarter of 1988 FT Mergers and Acquisitions identified 34 bids made by European companies for US ones, including Hoffman-La Roche's $4.65bn bid for Sterling Drug and Hachette's $415m bid for Grolier. In the same period British companies made bids for 72 US companies, while US and European companies made 42 bids for UK ones. (Not all these bids have been completed. Some, such as Pirelli's bid for Firestone or Hoffman-La Roche's for Sterling Drug, were unsuccessful, though, on these, financial advisers will still earn fees.)

The cheap dollar and the fear of protectionist sentiment in the US may explain this surge of takeovers; but even if the US market were closed off to foreign investors, Europe, with its single market by 1992, promises to provide a rich and barely tapped seam of deals for years to come.

There are three commonly cited reasons for this belief, none of which pre-supposes that the Continent's widespread antipathy to hostile bids will change. The first is that most large European companies have accepted the philosophy that they should buy and sell businesses to reflect their core activities.

Second, European companies in industrial sectors as diverse as insurance and engineering feel they need to merge into larger units if they are to withstand competition from the US, Japan or their stronger European partners. Third, that post-war generation which rebuilt much of Europe's shattered economy is approaching retirement age. Many owner-founders face the prospect of selling up, either because they lack an heir or a suitable heir, or because they need additional funds to expand.

Europe will provide a barely tapped seam of deals for years to come

Authoritative and timely figures for Europe are not available, and details of many deals are scanty. Frequently, the identity of the financial adviser is confidential, as well as the acquisition price. However, in the last three months FT Mergers and Acquisitions has published details of more than 350 bids and deals (including partial stakes) on the Continent. Of these, about 45 per cent were cross-border, 14 per cent of all continental bid activity coming from Britain and 4 per cent from the US.

A large market is one thing; profiting from it, another. In the US and Britain, the role of the financial adviser is well understood and appreciated. Not so on much of the Continent. PRS Business Publications estimate that professional M&A teams were involved in about 10 per cent of deal activity in Germany in 1986. The organisation conducted a survey of 52 owners who sold their German companies. A third of them did not retain a professional adviser for any non-statutory task; among those who did, 37 per cent complained about the quality.

On the face of it, the market looks ripe for plucking. But there are considerable obstacles. A cross-border M&A capability is immeasurably strengthened by a strong domestic franchise in each of the countries concerned. In the US, for example, Schroders describes how its transatlantic cross-border presence was enhanced (and its profits increased) by the presence of its affiliate Wertheim Schroder. Early fruits of this link were seen last year with the sale by Revlon to Pilkington of the optical glass manufacturer Vision Care. Wertheim Schroder found the seller and Schroders the buyer.

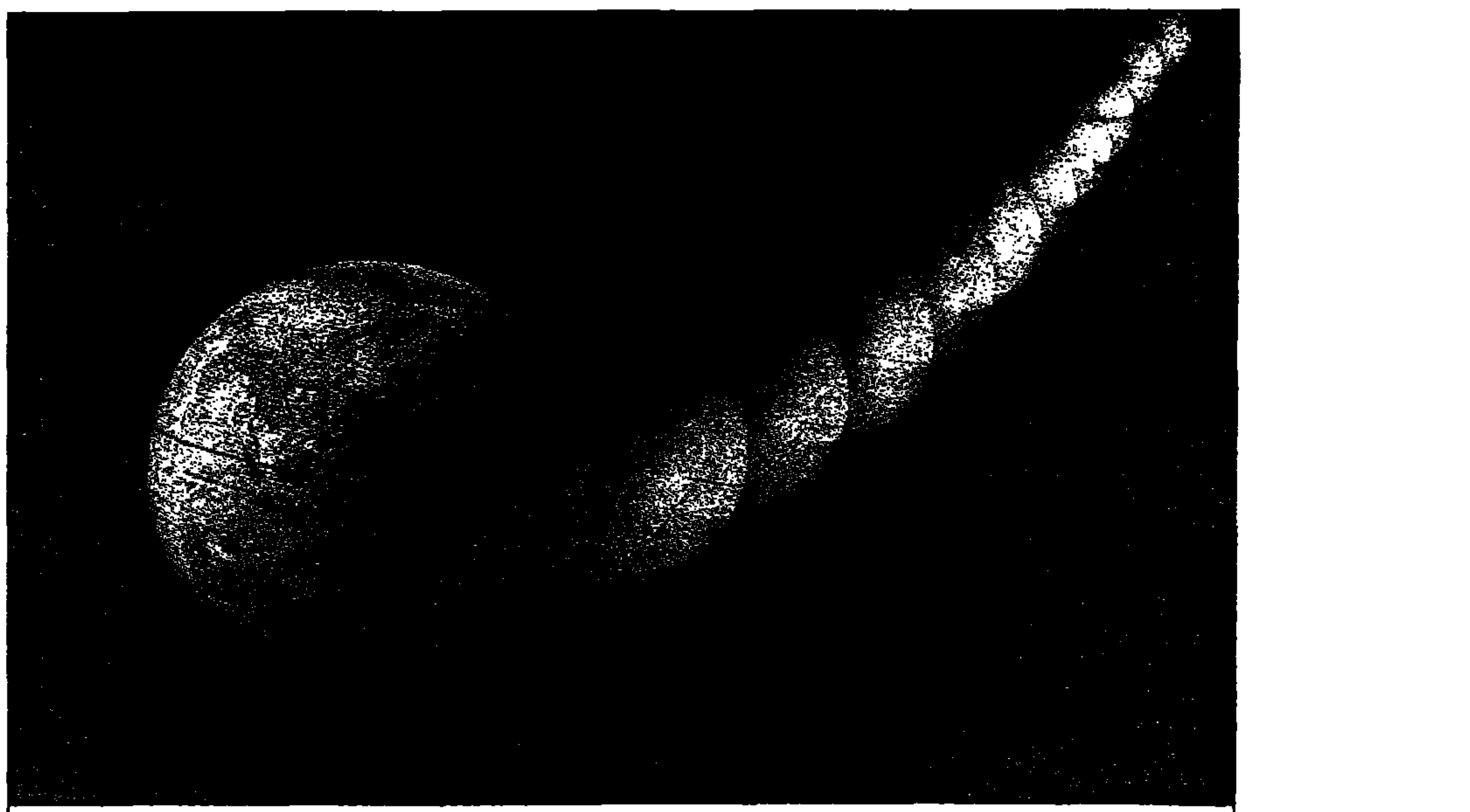
Europe, by contrast, presents banks with the problem of how to prepare to meet the expected need without a ready pool of trained staff, and without building up excess overheads before that market materialises. Some, like Hambros and Hill Samuel, are each seeking to establish relationships with M&A practitioners in other European countries, thus developing a pan-European network. The results of this approach in the shape of completed transactions have so far been thin on the ground.

Their rivals are going it alone, with many merchant and investment banks tending to service their continental M&A clients from London, while commercial banks such as Chase or J P Morgan, have perhaps half their M&A advisers in London and the balance in local offices in Europe.

It is too early to predict the winners and losers in this market. But Mr Harry Roundell, J P Morgan's senior vice president responsible for M&A in London, puts down a bold marker for the future.

"Most statistics show that a large number of mergers and takeovers do not succeed, with some studies putting the failure rate as high as 70 per cent," he says. "We are committed to improving long-term shareholder wealth, and intend to reverse that proportion."

The author is Editor, FT Mergers and Acquisitions, a monthly magazine published by FT Business Information



Stephen Fidler on Eurocommercial paper

Great leap forward

IF THERE were any lingering doubts about the permanence or usefulness of the market in Eurocommercial paper, they should have been answered now. Amid the turmoil of 1987, the market moved from strength to strength, doubling in size over the year.

The growth continued, if at a somewhat slower pace, in the first part of 1988. More than 600 programmes have been put in place; and at the end of April an estimated $61bn in short-term Europaper was outstanding, of which some $16bn was placed through bank tender panels.

This represents growth of about 17½ per cent since the beginning of the year, achieved in an environment of mostly rising interest rates and a steepening of the yield curve.

That is not to say that the market is problem-free. Many US issuers still find it compares poorly in cost terms with the US market, at least in the maturities in which they are comfortable issuing paper.

It is still also a market where dealers find it difficult to make money. However, as it grows in size there have been an increasing number of examples of firms turning down programmes which they thought unlikely to be profitable. Others now insist that they will act as dealers only if they receive a required return, say of 5 basis points.

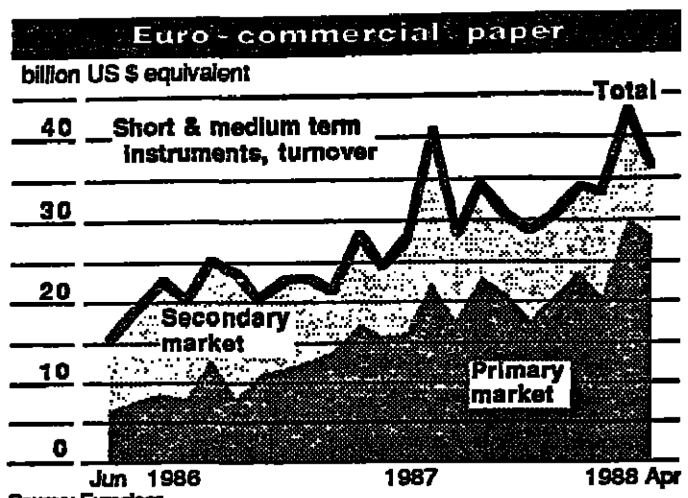
The market has made a great leap forward toward maturity in the last 18 months. A number of trends may offer a guide to its future development.

■ The rate of announcement of new programmes will continue to slow. Further growth in the market can be expected to come as much from the expanded use of existing programmes as from new borrowers.

That has already happened to some extent. According to J.P.Morgan, the average programme size has increased to between $200m and $300m, compared with about $150m six months ago. It estimates that the use of programmes has risen to an average 50 per cent, from 35 per cent in August 1987, which implies that quite a few programmes will be raised in size in the near future.

■ There will be a further concentration of dealerships in the hands of firms with large placing power. This trend is easy to exaggerate, but Morgan's figures suggest that each of the top five houses participates in 20 to 25 per cent of all announced programmes, whereas the next seven to 10 houses can claim only a 5-7 per cent participation. It estimates that the top seven dealers place 75 per cent of all paper.

Several factors militate against the development of an overwhelming US-style market concentration. Many banks believe that they should be in the market for reasons other than profit, such as cementing customer relationships or, in the case of US banks, as a proving ground for their domestic operations.



Source: Euroclear

The Euromarket is far more diverse than the US market, in terms of both borrowers and investors, and there is still room for "niche" dealers. But there are growing signs that some of the main dealers – those largely concerned with volume issuers – are turning away borrowers who will not issue in sufficient amounts or in a sufficiently flexible style.

■ A slight shift in the balance of market power from issuers and towards the intermediaries and investors means that the returns to dealers for placing paper may well increase. The once common "turn" on placement of 1 basis point or less is becoming rarer, as dealers push for higher fees.

■ The market will only gradually move away from the use of interbank interest rates – Libor, Limean and Libid – as a yardstick. This is partly because of the role banks continue to play as investors, particularly in the paper of lower quality credits. They are not going to be large investors in paper that yields less than their cost of funds.

■ The market in top-quality sovereign Eurocommercial paper has been established as a useful higher-yielding alternative to US Treasury bills by investors such as central banks seeking a park for dollar-denominated funds. It remains to be seen to what extent these investors will remain with ECP when market intervention in support of the dollar is less significant.

■ Uncertainty about currency values seems destined to ensure that hedged commercial paper – in which US dollar paper is linked to a forward foreign exchange contract, to provide a non-US dollar asset – remains a key sector of the market.

Nevertheless, it is true that as other commercial paper markets develop, such as that in Euroyen, borrowers will have to watch that their hedged paper does not spoil the market for their paper in another currency sector.

All dealers say these days that they are committed to the firm placement of paper with investors, and the old arguments about the desirability of a secondary market in ECP have subsided. Bankers, who say that only some 5 per cent of paper comes back into the secondary market, were surprised therefore when the New York Federal Reserve Bank concluded late last year that the average holding period for commercial paper was half of its maturity.

The New York Fed also established a link between secondary market activity and interest rates – as interest rates moved down, secondary market activity went up, and vice-versa.

The reason is that dealers – despite what they may say – do not place all the paper immediately. When interest rates fall, they cannot resist the temptation to profit from taking positions themselves, only feeding out the paper later to investors – and registering a secondary market trade with the clearing systems.

International equities

A trickle of issues

THE INTERNATIONAL equity market is still in a state of shock. Before the collapse of world stock markets in October, it was running at the speed of an express train. After that one short week, it was at a dead stop.

From the perspective of the City of London – the centre of the market in international share issues – it was a depressing story. Securities houses had staffed up to handle what was, for many of them, a highly profitable business and a key element of their international strategy, particularly in view of the difficulties of the Eurobond market.

According to figures from Euromoney Equityware, there were 56 cross-border share issues of all types in 1985, raising $3.69bn. In 1986, there were 149 issues totalling $11.55bn, and in 1987 there were 248 issues totalling $20.2bn. Yet in the first five months of 1988, 57 issues raised a mere $1.97bn.

The market suffered a double blow. Not only were investors shunning equities, but amid the international market turmoil they were retreating to what they saw as the relative safety of their domestic markets.

The evidence so far backs up the assertion that this retreat by investors was a temporary one. The Securities Industry Association of the United States said in a recent report:

"Although all international investors retreated to home markets in the fourth quarter, we view this as only a temporary setback in the process of internationalisation."

It concluded that the portfolios of US institutions were underweight in foreign stocks, compared with their counterparts overseas. US pension funds had only 4 per cent of their total assets invested globally, while the figure for Japanese funds was 10 per cent and for British funds 30 per cent.

"This indicates that US portfolio managers will continue to seek investment opportunities overseas. Moreover, the shifting of worldwide income and wealth that has led to a less dominant position for the US – the US had 47 per cent of world GNP and 39 per cent in 1986 – will serve to prod international portfolio diversification."

Underlining this diversification was the strong performance of the Japanese markets during and after the crash. The only large market to surpass in 1988 the record highs of 1987, Tokyo has surprised most foreign investors, who had spent 1986 and 1987 shedding Japanese equities, and underlined the importance of a diversified international portfolio. Because they were underweight in Japanese equity, most international fund managers underperformed the world stock market indices. This year, foreigners have become once more net buyers of Japanese shares.

Although institutional investors are making renewed forays into foreign markets, their approach is more cautious than before. Conscious that, before the crash, many were over-invested in markets that were ill-equipped to cope with big orders, they have placed more emphasis on market depth and liquidity. Buying is likely to be concentrated in established, less speculative stocks, although there is evidence that some foreign buying in Japan has been concentrated on smaller firms without the high price-to-earnings multiples of the big widely traded issues.

Nevertheless, the problem for the international new issues market has not so much been a lack of interested investors, although it is undoubtedly far more difficult to arrange a new share placement than a year ago, but the difficulties in persuading potential issuers to go ahead. This is despite the fact that current share prices are close levels seen earlier last year, when companies were falling over each other to issue shares.

In a way, the corporate sector in the US, UK and certain other countries is displaying a consistent view: that share markets are currently undervaluing companies. In this way, their view contrasts with most retail and institutional investors. So the big buyers in many of these markets have been companies. Rather than selling their own shares, they have been buying them, where it is allowed. In a post-crash takeover boom, they have also been buying up the shares of other companies.

Yet a trickle of new international equity issues has begun to emerge in 1988. Of course, the extent to which this will continue or grow depends on the general health of the world's stock markets. The issuance of international equity is a complicated, time-consuming process and it is more difficult now than it was a year ago.

This has highlighted its contrast with the international bond market. Although the Euro-equity market took over much of the Eurobond market's distribution mechanism, the former is much more intensive. "It's like comparing a Savile Row suit to one off the peg from Marks & Spencers," said one practitioner.

In part, this reflects the greater importance assigned by companies themselves to the issuance of equity over that of debt. A poor bond issue is of far less consequence than a bad equity issue, partly because of the effect a poor share issue can have on the secondary market. Firms arranging an offering must drum up an excess of demand among investors to ensure that the shares perform well, and this places a heightened importance on the ability to place equity initially into firm hands. By contrast, the primary stage of an offering for Eurobonds often achieves only minimal distribution with investors, but it is less critical when such bonds perform badly.

The $415m rights issue arranged in May for Norsk Hydro illustrates just how complicated an international share offering can be, but also shows that domestic market procedures can, where appropriate, be adjusted for the international markets. Goldman Sachs arranged the issue, which was made to accord with the regulations of exchanges and securities laws in eight countries, including the US.

Not all securities firms are well equipped to deal with this new harsher environment. Those with the key – the ability to distribute shares to investment institutions (and there are perhaps only half a dozen or so of them) – have been able to grab a bigger share of a much smaller cake.

Stephen Fidler

Stefan Wagstyl offers an explanation

Tokyo: odd man out

WITH ECONOMIC growth high, inflation low, and the stock market at record levels, it is easy to see why a sense of optimism pervades Marunouchi, the heart of Tokyo's financial community.

While the October crash in equities severely hurt companies in New York and London, its main effect on Tokyo has been to increase the relative strength of Japanese financial companies in the world.

Securities companies elsewhere have laid off staff and made heavy provisions for trading losses. But the four leading Japanese brokers – Nomura, Daiwa, Nikko and Yamaichi – suffered falls in pre-tax profits of only 30 per cent in the six months to March, and are predicting an improvement for the second half.

Japanese economists stress that the underlying reason for the financial markets' health is the strength of the country's economy.

But beyond this faith in the economy, there are some powerful elements within the financial community itself which have made the Tokyo stock market especially resilient. These are: a high level of liquidity; conservative trading rules; the overwhelming dominance of the Big Four brokers, which puts them in a strong position to influence stock prices; and a regulatory authority (the Ministry of Finance) which intervenes to help the market out in times of trouble. Taken together, these factors make Tokyo a very different market from New York.

The legendary Japanese savings ratio – now just under 20 per cent of income for the average *individual – means that* a huge amount of money is saved in the first place.

Institutions and private investors alike put relatively little of this money into the stock market, so they can afford even heavy losses.

Industrial corporations have been important financial market investors – using surplus cash and borrowed money in a practice known as *Zaitech*. After Tateho Chemical Industries, an Osaka company, had been virtually made bankrupt by losses in bond futures this summer, there were fears of a similar disaster in equities. But it has not happened, mainly because Zaitech investors concentrated primarily on the money and bond markets.

So, in the aftermath of the crash, Japanese investors stood firm while foreigners rushed to sell. Since January the foreigners *have steadily returned to the* market, though they now account for less than 4 per cent of its capitalisation.

The Japanese stock exchanges' rules tend to make for stability in times of crisis. Alone among major equity markets, Tokyo has limits on the movement of individual shares which restrict maximum daily swing in the index to about 15 per cent.

As elsewhere, credit plays a central role in the market. But this does not seem to put the stockbrokers' finances under strain, mainly because the Big Four broking companies have balance sheets as big as many large banks. Most of the remaining Tokyo Stock Exchange members have links with the four or with other financial institutions.

Moreover, Japanese brokers take fewer risks than their US or UK rivals, because they do less *market-making. They are pre*vented by stock exchange regulations from taking large amounts of stock on their own books, and so have to match buyers and sellers as much as possible.

Since the Tokyo stock market is the foundation of the Big Four's fortunes, they look after it well. Japanese stockbrokers are horrified by suggestions that concerted action by big broking companies amounts to manipulation.

The Finance Ministry, mean*while, believes its duty lies in* making sure that the stock market – indeed, all financial markets – serve the economy as a whole. As a result, co-ordinated efforts to try to influence the course of the equity market are not infrequent.

Sometimes it is the financial companies that take the initiative – led by the Big Four brokers. At other times, it is the ministry which moves first.

On Black Tuesday, October 21, when the Tokyo market fell by a record 3,836 points, the ministry acted swiftly – calling traders of the four brokers together. After the meeting, the four securities companies bravely bought shares, reviving a market which had been paralysed by a virtual absence of buyers.

Again, on the first trading day this year, the Finance Ministry, dismayed by the fall in the market in the last days of December and the decline in the dollar, abruptly announced a change in the rules governing tokkin (investment) funds. Equities immediately staged their second-largest one-day rise.

The ministry's move followed discreet lobbying from the finan*cial community. But in general it* is difficult to be precise about how co-ordination works. Even though the Tokyo financial markets are being liberalised, the ministry retains great power.

However, it is not merely, or even mainly, a matter of the carrot and the stick. The ministry's ability to influence rests on the fact that power in the Tokyo financial community is highly concentrated. There are just four big stockbrokers, seven big trust banks and five large life assurance companies.

Beyond this, there is the preference among Japanese institutions for consensus. It is easy to exaggerate the extent to which this is uniquely Japanese. There are conflicts of interest within *the Tokyo financial community.* Nevertheless, whatever the private arguments, efforts to co-ordinate action in the stock market meet little public criticism.

In the long term, Japanese economists say that no one can defy gravity. But they add that the last few months have shown that intervention has helped to smooth Tokyo's course through some very rough waters.

Regulation

Reciprocity worries London

IT SEEMS that A-Day on April 29, when most of the provisions of the UK's Financial Services Act 1986 came into force, was no more than a minor milestone in the long march of securities market regulation in Britain.

Originally it was marked as the day when the UK's new permanent framework would come into operation. But the international complications are now becoming clear as the British regulators get to grips with proposed European Community rules, and seek also to establish links with regulatory bodies in the US and Japan.

In some important ways the Eurobond market escaped the full force of the FSA, because of some energetic lobbying by the International Securities Regulatory Organisation (Isro), the separate Eurobond body which merged into the Stock Exchange.

Isro threatened that excessively tough rules would lead to the mass emigration of Eurobond houses to places like Luxembourg. As a result, practices such as stabilisation of new issues, which had faced a ban, were largely left alone.

The Zurich-based Association of International Bond Dealers (AIBD) has been designated as an overseas stock exchange, even though much of its members' business is carried out in London. But its real time trade matching system, which will enable it to carry out investigations into dealings, is not yet in place.

All the same, regulation is biting, notably in the area of financial controls, where investment firms operating in the UK have to comply with stringent rules determining the capital with which they must back their risk exposure.

The regulators argue that the financial rules are little more than a codification of the systems which well-run securities houses should have implemented anyway. But all the firms have had to reorganise their systems so as to produce data in the required standardised form. And not all of them might otherwise have thought it necessary to commit capital on the scale required.

With the basic UK structure now implemented, the debate is moving on to an international plane. To begin with, the European Commission in Brussels is busily developing new integrated regulations for financial institutions within the European Community, leading up to the creation of a free internal market for financial services in 1992.

A Banking Co-ordination Directive has been published, and another on securities firms is being drawn up. The idea is to develop a level playing field so *that all Community financial* institutions can compete on equal terms. But there is considerable controversy about important aspects of the proposals.

A recent response by the Stock Exchange in London has been to set up a Europe 1992 Working Committee, headed by Mr Stephen Raven, with the aim of making sure that the voice of the London market is heard loudly.

Basic questions of supervisory jurisdiction must be answered. The pattern of regulation in the Community is far from uniform, with responsibility variously in the hands of central banks, finance ministries and securities commissions. This may need to be rationalised in some way.

There is also the home-and-away problem. Should an institution operating in a foreign country be supervised by its home regulator or by a body in the host country? The principle is that home-country control should be paramount, but it will not be practicable for the home regulator to monitor all foreign transactions closely.

There is scope for jealousy if some EC countries are more lenient than others

The suggestion therefore is that basic questions of fitness and properness and capital adequacy will continue to be the responsibility of regulators in the home country, while the host country will look after position risk and some aspects of conduct of business.

But naturally there is plenty of scope for jealousy if some EC member countries are seen to be more lenient than others. And to the extent that the new UK legislation is tougher than most, London could suffer if securities houses based elsewhere in the community gain competitive advantages.

So there is considerable pressure from securities houses in London for the new regulatory structure to be simplified as soon as possible. A good deal of flexibility is already built into the system, with the Securities and Investments Board able to modify its rule-book in many respects, while the Trade Secretary has wide powers to amend the stat*utes. However, fundamental* changes would require new legislation, and that is unlikely to be considered for at least two years.

There is another way in which London might also prove vulnerable. As the most international financial centre in the Community, with commercial ambitions which go far beyond Europe, it could be damaged by any tendency for the 1992 proposals to be inward-looking, and aimed as much at keeping non-EC competition out as at fostering the internal market.

Thus London is worried about the reciprocity provisions in the banking directive. These are not specific but are clearly aimed, in the first instance at least, at the Japanese. The idea is that unless a foreign country opens up its own markets its institutions should not be granted normal access to the markets of the EC.

This may make admirable sense for many financial centres in Europe which have mainly domestic priorities, but for London it is different. The City's global market objectives override narrow concerns of reciprocity.

All the same, the recent last minute blocking of the entry of the Japanese securities houses Nomura and Daiwa to the ranks of gilt-edged market makers in London, because of the row about the exclusion of two British broking firms from the Tokyo Stock Exchange, shows that the reciprocity issue is controversial even within the UK. The British Government and the City of Lon*don do not necessarily see eye*-to-eye on the matter.

The Japanese reciprocity issue is only one aspect of the broader question of global regulation. ... fited from the more bureaucratic regulation of the American and Japanese markets. US and Japanese banks are free to develop securities businesses in London in a way that they are not in their home countries, because of the separation of banking and securities trading under the Glass-Steagall Act and Article 65 of the Japanese Securities Exchange law.

But now there is concern that international business might drift off elsewhere, and that serious problems could develop if the regulatory authorities cannot follow the globalisation route

So far, efforts have been concentrated on the development of a variety of bilateral understand*ings, such as on the exchange of* information. But this is not enough, and accordingly there is pressure for multilateral co-operation designed to do for the securities markets what the Cooke Committee of banking regulators *has done for the credit markets.*

This co-operation would particularly focus upon financial regulation, to make sure that there was as far as possible a level playing field in terms of risk management and prudential reserving. A lot of work is also needed in the area of links between markets, where great obstacles are produced by differences in systems and regulations.

The fear, in the wake of last October's crash, is that, if the global market continues to develop faster than the regulators can adapt, the result could be a financial disaster which could set the international securities business back many years.

Barry Riley

Complex swap deals

Just a simple idea...

IN THE space of six years, swaps have become an established part of the international capital markets. From the early days of one-off deals conducted between innovative institutions, the swaps market has developed into a substantial, liquid worldwide activity.

A survey conducted for the International Swap Dealers Association (Isda) found that, in the first half of 1987, the nominal principal involved in interest-rate and currency swaps was a massive $225bn.

That is a rather inflated figure, because it is not the principal but the payment flows that are important. But the growth of the market is well illustrated by the fact that the equivalent total for the whole of 1983 was just $3bn.

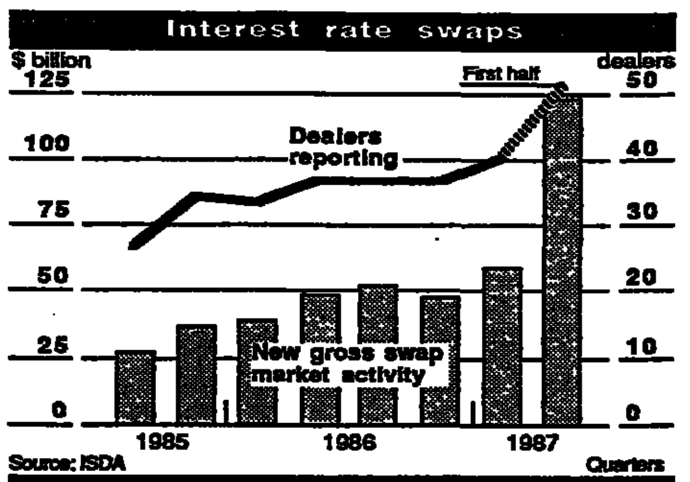
Many complex articles have been written about swaps, but the underlying idea is quite simple. Two institutions, receiving or paying interest income, agree to exchange payments or receipts.

For example, Company A may have borrowed in yen at a floating rate, and Company B may have borrowed in dollars at a fixed rate. B now agrees to meet A's interest payments and vice versa.

The motives for the transaction can vary. Company B may believe that both the yen and Japanese interest rates are set to fall. Company A may believe the reverse.

Amazingly complex deals can be constructed around this basic idea. In late 1986, Kleinwort Benson arranged a swap programme for the UK Export Credits Guarantee Department which involved 47 different transactions worth a total of £2bn.

Swaps are now arranged involving zero coupon bonds, commercial paper, exotic currencies, even commodities. Hybrid instruments, such as the *swaption*, have been constructed, which give the buyer the right to undergo a swap at a future date.



In the Euromarket, most bonds issued in unusual currencies like the Australian dollar or New Zealand dollar are destined to be swapped. A foreign corporation which is perceived as a good credit risk will issue the bond, and then find a local borrower who wants the currency concerned. A swap is arranged into the currency of the bond issuer's choice; both the local borrower and the bond issuer should end up with cheaper funds than if they had borrowed separately.

The other way in which swaps are used in the Eurobond market is the so-called "asset swaps". These involve investors passing on the income stream from a bond to a counterparty in exchange for income in a different form.

A prime example was a Morgan Guaranty asset swap last year – it created two issues named Stars and Stripes, which were essentially a repackaged Deutsche Mark floating-rate note issue from Denmark. Swaps were arranged so that the new issues were offered not in Deutsche Marks, but in dollars and sterling respectively.

But although major deals like the Stars and Stripes deal receive most attention, the Isda survey shows that the typical swaps deal is a more basic transaction. By far the most common swap is an exchange of interest payments in US dollars – as banks, corporations and institutions switch from floating to fixed-rate debt depending on their view of the future movement of interest rates.

US dollar interest-rate swaps accounted for $139bn of the $227bn of swaps in last year's first half. Such is the sophistication and the liquidty of the market that corporations can now use swaps as a routine tool of exposure management.

When Grand Metropolitan, the food and drinks group, paid $1.4bn last year for Heublein, the US-based producer of Smirnoff vodka, it was suddenly faced with a large dollop of floating-rate debt on its balance sheet and a consequent exposure to a rise in interest rates. By arranging a swaps panel of 25 banks, Grand Met was able to fix the rate on $750m of the Heublein debt. The balance of the group's debt portfolio had been restored.

The Grand Met deal illustrates the fact that corporate treasurers are now as sophisticated as investment bankers in their understanding of the swaps market. That means there are few easy profits for bankers in the market. The so-called "plain vanilla" deals are intensely competitive; the potential for profits in the more complex deals is much greater.

Isda recently produced the first assessment of the size of the currency swaps market – $43bn in the first half of 1988. Currency swaps obviously carry a higher level of risk than a simple interest-rate swap, because the counterparties are exposed to both exchange and interest-rate movements. Conversely, if both sets of rates move favourably, there is an increased potential for profit.

In the early days of the swaps market, most interest-rate deals were conducted in US dollars; but the markets in other currencies – sterling, Deutsche Marks, yen – have gradually increased in liquidity, particularly as more banks have become involved.

Liquidity reduces the risks involved in a swaps deal. Essentially, that risk is composed of two elements: that interest or exchange rates will move, or that the counterparty will default.

Obviously, if someone agreed to swap from paying 10 per cent fixed to paying floating-rate, and then interest rates went to 20 per cent, that would be an expensive deal. Banks cope with the problem by running a swaps "book" in which they match up swaps, so that their overall exposure to interest or exchange rate movements is limited.

In fact, the risks involved in default are also largely a function of economic movements. If one party fails to meet its obligations, then the other will be faced with servicing its original debt, which will only be a problem if exchange or interest rates have moved unfavourably since the deal was arranged.

It is such risks that banking authorities and swap dealers are currently debating as the regulators seek to impose capital adequacy requirements on off-balance sheet instruments like swaps.

Philip Coggan

Dominique Jackson on swaps and Eurobonds

Attractive rates

THE SYMBIOTIC relationship between the primary Eurobond market and the swaps market has matured rapidly over the last two years. Indeed, in 1987, the possibilities available through the use of both interest-rate and currency swaps determined to a large extent the currency and coupon on many new issues.

Tracking the development of the swaps market is no easier, however. Houses which run a serious swaps book are loath to reveal the details of successful transactions. But indications are that the volume of swaps rose last year, despite growing concern about credit risks.

The close relationship between the two markets was shown clearly when the character of the swaps market changed exactly in line with the adjustments seen in the primary Eurobond market. The amount of US dollar fixed rate/floating rate swaps, which used to constitute the main area of activity, declined in tandem with the value of the dollar and the subsequent drastic drop in the issuance of dollar-denominated bonds and of new conventional floating rate notes.

Swap business involving other currencies increased, with the number of deals in Deutsche Marks and yen rising considerably. Many Canadian dollar deals were part of swap transactions, while the bulk of new Australian and New Zealand dollar issues originated from currency swaps. Sterling deals, Ecu and Swiss franc issues also saw more swap links than ever before.

The market emphasis has changed lately as a result of investors' concerns about liquidity and credit risk since the latter half of last year. Increasing risk-aversion of swap participants has meant a sharp decline in liquidity in the longer maturities, with new deals concentrated in maturities up to five years.

The rapid development of swaps has had a huge impact on the Eurobond market, the most obvious benefits being for the borrowers themselves. For the majority of issuers, the swap transaction determines their eventual cost of funds. The ability of the lead manager to effect the desired swap is often the key to the borrower's decision when awarding its mandate.

With the techniques and possibilities now available, the cost of funds can turn out attractively low. For example, when swap rates are attractive, even a moderately popular borrower tapping the Australian dollar sector can achieve rates of 50 basis points (hundredths of a percentage point) below the London Interbank Offered Rate, and sometimes even better.

Lamentably, when the swap opportunities, or windows, do appear, borrowers, unable to resist the attractive potential rates, and syndicate managers, just as unwilling to see a potential mandate fall through, rush to launch new issues, resulting in a log-jam of new paper which then takes weeks to digest.

This stop-start cycle is endemic in the Australian dollar sector, but has been seen frequently so far this year in both the Eurosterling and Ecu bond sectors, so that many otherwise well-priced and well-managed issues either sink without trace of fare rather worse than might be expected in normal market conditions.

The growth of swaps has also brought with it the spectacle of the most unlikely borrowers tapping surprising sectors, and has made its mark on the league tables for underwriting and lead-managing of issues, making an efficient swaps team any house's most highly prized asset.

Banks with little or no track record in currencies outside the dollar and their own are now able to win lucrative mandates from borrowers that they would previously never have considered approaching.

Houses previously confined effectively to targetting investors in their home geographical base have now spread their tentacles by arranging issues in almost every other currency and reaching a broader range of investors.

Thus the current predominance of the potential swap over the other characteristics of the new issue has exploded several long-established Eurobond market wisdoms – such as that an Australian bank, for example, is the best house to lead an issue in Australian dollars. Logic may dictate so, but more often than not these days, the swap will not.

On the one hand, these changes were welcome. Syndicate teams have finally been spared the need to think up intricate, and not always entirely successful, twists and turns to conventional issues in order to impress both borrower and investor. For many houses, the growth of swaps has opened up markets which seemed inaccessible or to which entry has always appeared prohibitively costly.

As swap techniques are refined, the superficial aspect of the primary market is one of smoother capital flows, with important bridges being built between once separate regions, assisting market globalisation.

However, many market analysts argue that the emphasis on the financial engineering behind the scenes of a new-issue launch is severely distorting the primary market. Some say that borrowers can no longer see farther than the mouth-watering cost-of-funds achieved through the swap transaction and award mandates without seriously considering the placement ability of the house which has come up with the most tempting proposal.

Many syndicates appear to have taken a similar attitude – if a deal is for a half-decent name at a half-decent price, then someone will buy it eventually.

However, in the scramble for mandates since increased competition has pared margins and forced some houses out of business, it is more difficult for lead managers cynically to price and launch an issue into an increasingly selective market, particularly without supporting the deal.

Stabilisation practices are under review, as part of the Eurobond market's attempts to fit in with the UK's new securities laws. If a tighter code of practice for the primary market is drawn up, lead managers may have to adjust their approach to the launch of new issues.

Two key bond markets: the US and (below) Japan

Sagging under strain

THE LAST annual economic outlook by Mr Henry Kaufman, Salomon Brothers' erstwhile bonds guru who moved on to fresh pastures at the end of last November, started with this paragraph:

"The element of crisis that pervaded world financial markets in October 1987 threatens to re-emerge in the coming year. Following a brief period of sluggishness, a brisk revival in US economic activity will tighten resource availability and heighten both inflation fears and actual inflation. In addition, it is unlikely that the major industrial nations will be able to fashion policies with enough flexibility to reduce structural trade and payments imbalances. US dependence on foreign sources of funds to finance economic expansion will therefore not be ameliorated."

This neatly sums up why US government bonds face a tough time this year. After a brief honeymoon last autumn, when terrified investors bailed out of equities in the comparative safety of the fixed-interest sector, Treasuries now seem to have settled into the same gloomy downward trend which was in place until October last year when the stock market crashed.

As 1988 has progressed, the bond market has sagged under an increasing weight of evidence that the economy is still growing quite rapidly and that demand remains too strong for comfort – given an extremely stubborn trade imbalance and that inflation may be on the rise, with unemployment at historically low levels and some sectors of manufacturing industry running at, or very near, full capacity. The dollar remains vulnerable and interest rates have started to rise.

Yields at the long end of the market are back up to 9 per cent, their level in early January, and few traders see any prospect for a significant recovery from that level in the foreseeable future, unless another crisis develops in the equity market.

In the last few months, genuine demand only seems to have surfaced in the bond market, and that concentrated in shorter maturities, when the equity market has looked vulnerable.

While the government bond market seems to have returned very quickly to the bad shape it was in for most of last year, the corporate and high-yield sectors seem to have come out of shock, partly because of the wave of acquisitions after the October crash, which has made many US companies look extremely cheap, not only to foreign predators but also to domestic concerns with a pile of cash.

Corporate new-issue volume totalled $8.8bn in March, according to the Fixed Income research team at First Boston. This compares with $7.2bn in February. The total for the first quarter was $26.8bn, compared with $30.2bn during the same period last year, not a particularly large decline.

The wave of mergers and acquisitions and share-repurchase programmes provides one source of demand for new financings. Another is the increased level of planned capital investment, as companies in some sectors of manufacturing industry run up against capacity constraints.

As confidence in continued economic growth returned in the early months of this year, the high-yield or "junk bond" market has also shown signs of revival, having taken a pause immediately after the crash because of increased fears of default.

Junk bond yields have fallen back to pre-crash levels as demand for financing has been boosted by the high level of acquisition activity. There does, however, appear to be some caution about the more risky or marginal junk bonds, and some emphasis on quality.

In the first quarter of this year, the new issue of junk bonds totalled $4.1bn, or 13.8 per cent of the conventional corporate market, compared with $6.7bn (23.8 per cent) in the first quarter of 1987. In 1987 as a whole, new issues fell by 20 per cent to $36bn from $45bn in 1986.

While higher interest rates and worries about the durability of current economic expansion could start to dampen the mood again, acquisition fever seems set to continue. Drexel expects growth in demand for junk bonds from European and Asian investors, who see them as a way of financing acquisitions in the US.

The prospect of increased international demand for high-yield financings is just one interesting trend. Another is the increased commitment by major investment banks to this sector, and the gradual erosion of the monopoly been enjoyed by Drexel Burnham Lambert, which invented junk bonds. Its share of new underwritings fell to 42.9 per cent in the first quarter of this year. Two years ago, Drexel had 60 per cent of the new issues market.

In the US Treasury bond market, one of the most fascinating features of last year was the vastly increased activity by foreign central banks which invested heavily in an attempt to absorb some of the billions of dollars bought in an attempt to prop up the US dollar. Their buying, at times, seemed more like an extension of international co-operation than simply investment.

It will be interesting to see whether central bank or official participation in the US Treasury bond market remains a feature in 1988. Given the weakness of broader retail demand for bonds, central bank buying has taken on more importance.

Janet Bush

Regulation on way out

AS THE old saw has it: there *is* a Japanese corporate bond market – it's in Europe. Not surprisingly, Japanese companies have spurned the tedious registration procedures and controls on issue volumes and interest rates of their domestic market for the freer, faster and cheaper ways of the Euromarkets.

Japan's Ministry of Finance is now trying to end a paradox whereby companies from the world's biggest creditor nation had come to think first of raising Euroyen, not yen.

Over the past three years, Japanese firms have raised more capital overseas through bond and stock issues than they have at home. The ministry wants to bring the Japanese corporate bond market home. The way it is doing so is by stripping away the layers of regulation that have deadened the domestic market.

This started in 1986 with easier issuing rules for convertible bonds; followed last year by the introduction of simpler registration procedures for straight bonds, such as letting a company's annual report be the basis of its prospectus for a new issue, and with the reduction of the time taken to bring a new issue to market from 25 days to 10.

Nonetheless, new Euroyen issues increased last year from just under Y3 trillion (million million) worth to just over; and Samurai issues (yen borrowings by foreigners in the Japanese market) only increased a tick to just over Y500bn. The liberalisation still has far to go.

This year's measures, it is hoped, will go all the way. They include allowing companies to make new issues on the basis of a bond rating; allowing floating-rate issues; and, perhaps most significantly, shelf registration.

Shelf registration (the pre-registering of an issue with the authorities, which can then be put out at the issuer's discretion at any time within a given period) should come this autumn. It is expected to boost greatly the volumes of new issues of straight and convertible bonds (and to boost the underwriters most suited to shelf registration – those that are highly capitalised and have strong distribution power, ie the Big Four Japanese securities houses, Nomura, Nikko, Daiwa and Yamaichi).

At the same time, the liberalisation of Japan's financial markets is letting the commercial banks deeper into the domestic underwriting business. They are still excluded from underwriting new public offerings. Japan's Glass-Steagall clone, Article 65, legally separates commerical and investment banking. But they have been allowed into the private placement business.

They already have underwriting experience through their overseas securities subsidiaries. However, an internal Ministry of Finance rule, "the three bureaux agreement", prevents them from underwriting Japanese companies' overseas issues.

The question is: how long will it be before that expertise can be brought home through the back door? The answer may be sooner than later. The securities industry is understood to have agreed to the abolition of the three bureaux agreement, in return for being allowed into the foreign exchange business, which is now the banks' preserve.

One reason why the securities companies want to be in the foreign exchange business is that it will increase their capability to do swap business domestically. They would prefer to be allowed to underwrite domestic foreign-currency issues for Japanese companies (only foreigners can make foreign-currency issues in Japan) because they believe that would also bring home the huge equity warrants business from the Euromarkets.

Once Japanese banks' overseas securities subsidiaries are free to underwrite overseas issues for Japanese companies, and the domestic corporate bond market is liberalised to put it on an as attractive footing as the Euromarkets, then the commercial banks will *de facto* be in the underwriting business. That situation will eventually be formalised when Article 65 is revised to allow banks, securities houses and other financial institutions to have equal access to a range of businesses that will include corporate bond underwriting.

While the liberalisation of the the corporate bond market has yet to be completed, the ministry has also to turn its attention to the government bond market. It is slowly moving from a syndicate system to an auction one for new issues.

Syndication guarantees that the government can raise the money it needs in a way an auction cannot. However, Japan is now being pressed by the US to switch to a full auction system, because it reckons that will give American firms better access to the government-bond market.

James Andrews

The main bond markets: Germany (left), sterling (right), Australia and France (below) and (overleaf) the US and Japan

New names on DM issues

THE VOLUME of new Deutsche Mark Eurobond issues in the first months of this year has not been very different from the same period last year, but the names at the bottom of the invitation telexes have changed appreciably.

The greater prominence of some leading foreign houses, and last October's surprise announcement of a new withholding tax on most savings and investments from 1989, have been the two talking points among German Eurobankers this year.

But while withholding tax should boost the DM Eurobond business, the effects of greater competition for lead managements looks distinctly uncertain. Talk of unprecedented friction is exaggerated, but rivalry has undoubtedly reached new peaks.

Matters have been exacerbated by the fact that new business has become harder to get. The very high liquidity of leading German companies has made them reluctant borrowers. Moreover, many issuers – domestic and foreign alike – felt for some time that interest rates would sink further.

Rates now seem to be heading upwards, triggering greater issuing interest. But while issuers are attracted by 10-year paper, investors feel happier with maturities half as long.

"The fantasy" in interest rate and currency prospects seen last year has certainly gone, notes one executive at a leading German bank. "This year it's just withholding tax which has had an effect."

It is now certain that the tax will not apply to Eurobonds issued by foreign entities, be they the foreign borrowing vehicles for German groups or for foreign companies themselves.

The market has already reacted by altering spreads between DM Eurobonds and benchmark German government paper (Bunds).

As a result, many foreign names can now issue more cheaply than the federal government. The split market, long opposed by the Bundesbank and a feature of German finance before coupon tax was removed, has returned.

The DM300m issue in mid-April for LKB Baden-Württemberg Finance was a striking example. Though unrated, the deal, effectively from the state bank of Baden-Württemberg, was seen as being of similar quality to federal government paper.

However, its 5.88 per cent yield was some 40 basis points below an issue of like maturity for the Federal Post Office the previous day. With new issuers scrambling to set up foreign borrowing vehicles, German bankers are already joking about when the Bund itself will go offshore.

Withholding tax has also triggered prompt reactions on the investor side. German banks in Luxembourg in particular have benefited from the expected flight of capital, leading to astonishing growth in a number of new funds.

Eurorenta, the brainchild of Deutsche Bank Luxembourg and DWS Deutsche Gesellschaft für Wertpapieren, the parent bank's fund management subsidiary, is the most conspicuous example. The fund attracted no less than DM1.5bn from investors in its first four months alone.

Deutsche Bank – and other banks behind a number of similar ventures – says the timing is entirely fortuitous, but it is hard to imagine such rocketing growth had it not been for the tax.

Deutsche Bank: leader in the DM Eurobond market

A partly-linked development has been the arrival of some very large, high-coupon deals for less-than-investment-grade sovereign borrowers. Commerzbank's DM5,000m deal for Turkey was the biggest of its kind.

Underlying asset swaps – whereby floating rate DM funds are synthetically created from the relatively high-coupon fixed rate paper – have been the main spur for the deals, but issue sizes have also been bolstered by greater retail demand for the high coupon, withholding tax-free paper.

As to lead managements, "we are now in the third phase," says one experienced observer. After first obtaining the necessary licences and staff, and then settling in, banks like Crédit Suisse First Boston, Swiss Bank Corporation International (SBCI), Morgan Guaranty and Morgan Stanley are now very keenly looking for business.

Two transactions this year stand out. In late February, Schweizerischer Bankverein (Deutschland), SBC's German subsidiary, led a debut DM250m issue for Coca-Cola. Then it followed with a DM50m issue for Wella, the German hair-care group.

Despite tight pricing, the Coca-Cola deal turned out to be a great success and one of the best transactions of the year, according to some bankers. However, both deals triggered a significant reaction at Deutsche Bank, the leader in the DM Eurobond market with 40-45 per cent of new-issue volume.

The two aggressively-priced issues it led soon after for Philip Morris and Chrysler were widely interpreted as being strategic decisions and important signals to the competition.

The bank stresses that both deals were profitable, and emphasises in particular the importance of its domestic placing capacity. "Institutions are fickle buyers. If the currency is not interesting, the lender of last resort is domestic," says one senior executive.

How matters will develop remains uncertain. Some believe the market will settle as the bank's reaction is digested and other houses decide against triggering what may become a bidding war.

Others are less sanguine, suggesting that some foreign banks may now be under pressure to show performance and gain market share. But there is also criticism of Deutsche Bank for its "presupposition" that new business must come its way.

It may just be that Frankfurt is slowly learning to live with the harshly competitive practices that have long been commonplace in London. Thus talk of exclusive "house" relationships between one bank and a borrower is seen as increasingly out of date. "Business can only get tougher as the newcomers compete more strongly," reckons one dealer.

Meanwhile, the Japanese threat, predicted by some after Japanese houses had gained the right to lead manage deals last October, has not materialised. Industrial Bank of Japan, Nomura and Bank of Tokyo all launched deals. But with investors wary of equity-linked paper, and the appeal of straight DM bonds limited for Japanese borrowers, there has been no flood.

The question now is whether Japanese houses try to lead bonds from established Japanese borrowers which have hitherto used German banks.

Among other newcomers to the market, both J P Morgan and Düsseldorf-based Trinkaus & Burkhardt are honourably mentioned. Though the Trinkaus issues have tended to be small, many bankers compliment it on quickly finding a niche for innovative transactions.

Haig Simonian

Eurosterling euphoria

FOREIGN INVESTORS have discovered a new enthusiasm for sterling securities in the last 18 months, and the Eurosterling market in particular has grown in size and importance.

In early 1987, the euphoria in the run-up to the re-election of the Thatcher government established Eurosterling as a "high profile" sector of the Eurobond world. Its share of a total issuing volume of $143bn (equivalent) last year nearly doubled to 10 per cent as it emerged as the third busiest sector.

This year, in net terms, issuing volume has already climbed to around £6bn, and a new underpinning to the market has appeared in the form of the expected shortage of gilts.

The projected repayment in the UK's public sector debt requirement means that new demand for fixed-rate investment in sterling will have to be satisfied by borrowers other than the government. Assuming negligible foreign exchange intervention, Greenwell Montagu estimates net redemptions of gilts should amount to as much as £6bn.

As far as the Eurosterling market is concerned, the most important aspect of this change in the supply-and-demand situation is that it should encourage domestic institutional buyers, who have traditionally been suspicious of investing in Eurosterling, to commit more funds to it.

However, the interest rate and currency background has become increasingly clouded since the government's decision in early March to "uncap" sterling. What encouraged international investors to look closely at the Eurosterling market in early 1987 was the perception that the currency had stabilised at an undervalued level against the Deutsche Mark.

Since March, the attractions of sterling's high yields have been eroded by higher US interest rates. Longer-term US Treasury and gilt yields have been converging to the point where 10-year gilts are now offering a meagre 20 basis points premium over Treasuries.

In theory, then, international investors should be losing interest in the market. However, to the surprise of participants, foreign investor enthusiasm for the sector appears to have been undimmed as the currency has climbed to DM3.10 and beyond – they judge that sterling has still further to go, ruling out the possibility of interest rate rises.

At the same time, borrowers have been encouraged to take advantage of this buying interest as they have taken the view that sterling must weaken over time, with interest rates rising and UK inflationary pressures coming through.

Notable among the recent crop of bonds has been a string of long-dated deals for UK companies such as Pearson, the industrial conglomerate, and British Airways; and sovereigns, such as Finland. With these issues, the market for bonds with maturities of 20 years and above – dormant for some time – has reopened.

Before 1986, the issue of a Eurosterling bond with so long a maturity was thought inconceivable. Foreign buyers were considered too wary of the currency, while, at the same time, borrowers saw long-term UK interest rates as prohibitively high.

There was hope that the UK pension funds and life insurance companies would buy them, despite their requirement for long-term assets, because they looked askance at the Eurosterling market on the grounds it was too difficult to control. At that time in the domestic bond market, they could find issues that were placed more tidily, and on which they could to some extent dictate the terms.

However, all that was changed by a path-breaking 17-year issue for ICI in March 1986. Since then, UK institutions have been more or less compelled to look more closely at the Eurosterling market, as both UK companies and overseas borrowers have come to prefer it on the grounds that it is more flexible and cheaper.

But although UK companies and overseas entities have participated in the upsurge of issuance in the Eurosterling market this year, they have still been relatively unimportant compared with the volume of paper that has emerged from the UK building societies.

Since first being granted access to the market by their regulatory body in 1985, the societies have become virtually the bread-and-butter of the Eurosterling sector. Despite an improvement in their flow of funds from retail sources since October's stock market crash, legislation which came into effect early this year, allowing them to participate in new activities in competition with the banks, has meant that their appetite for Eurobond market financing has continued undiminished.

They have at least spread their Eurobonds between the dollar, Swiss franc and sterling sectors. But investors have still become palpably tired as "yet another" issue for one building society or another has surfaced each time a moderately attractive financing opportunity has opened up in the swap market.

Clare Pearson

A momentum down under

IN GERMANY the local version of the British Medical Journal, Deutsches Medizinisches Wochenschrift, carries advertisements to buy Australian dollar Eurobonds.

Though coupon-conscious doctors and dentists called Duval, Müller or Schmidt are still important to a market reared on strong retail buying from Germany, the Benelux countries and, to a lesser extent, Switzerland, most participants agree 1987 was the year the Australian dollar Euromarket came of age.

Hambros Bank, top of the Euromoney league table last year, says that over half of a market now nearly A$25bn-strong has been issued in the past 18 months.

"It is not yet the belle of the ball but it has definitely lost its Cinderella status," quips Mr Jerry Raybould, of ANZ Merchant Bank, noting that it now exhibits the three tiers familiar to any mature market: a sound retail investor base, widespread institutional buying and a liquid professional market.

It is also shedding an early over-reliance on swaps into other currencies. There have been over 50 issues since the turn of the year, at a time when the domestic Australian bond market has raced so far ahead of the Euromarkets that the end-users of Australian dollars – Australian companies – can borrow more cheaply at home, making swaps much less attractive. This has tilted issuing activity away from corporate names to banks, still happy to secure US dollar funds at Libor less 20 or 30 basis points, against Libor less 50 or more a year ago.

"Unswapped deals are rising as a proportion of the market," says Mr Adrian Bell at Hambros Bank, citing wider institutional buying, heavier turnover, increased issue and dealing size and an influx of new players as underwriters and market makers as symptoms of a more settled order.

A year ago A$50m was a large issue. Now professionals worry about liquidity if an issue is less than A$75m. Typical trades have doubled from lots of 250 bonds to 500 or more. And the tendency, familiar in any peripheral market, for banks to drift in and out as profitable opportunities dictate, has shifted in favour of a stable group of houses with either placing power in Europe or access to a client base with a natural requirement for Australian dollars.

Notably, the slack left by the withdrawal of Orion Royal Bank was quickly taken up by European and Australasian banks including Deutsche Bank, West Deutsche Landesbank, Paribas, Westpac, ANZ and, latterly, National Australia Bank, which recently poached 12 Australian dollar traders from ANZ broking subsidiary McCaughan Dyson.

The increased liquidity has attracted institutional buyers from the US, the Middle East, Singapore and Hong Kong, as well as Europe, where exiled Australian tax-based funds and German unit trusts have been especially prominent. And with some early issues up for redemption in 1988, the market should soon develop a momentum of its own.

Sceptics, like Mr Ronald Lemke, at Deutsche Bank, are reserving judgment about the quality of institutional involvement. But others, while aware that some institutions are sufficiently flush with cash to risk a flutter on the currency, think most are buying for sober reasons like higher yields and currency diversification. Mr John Hibberd, of Australasian broker Fay Richwhite, says that switching between the Eurobond and Commonwealth bond markets reflects their genuine need for Australian dollar assets.

If Australian dollars have shed their Mickey Mouse image, Kiwi dollars are still firmly marooned in Disneyland, exclusively dependent on retail demand and swap opportunities. Because most New Zealand corporations are unknown in Europe, the market has found only two reliable sources of swaps – Development Finance Corporation and Bank of New Zealand.

Coupled with an inverse yield curve, this has allowed only three new issues in 1988, all led by Hambros. Throughout last year there were only 21, worth a paltry NZ$1.17bn, against 165, worth A$10.81bn, in the Australian dollar market. Hopes of large and liquid issues from the World Bank and British Gas did not materialise, and outstanding issues are firmly locked away in retail accounts, available only at hefty premiums to par.

Only two banks – Hambros and Kredietbank – make prices in Kiwi dollar issues, and usually only to each other. "Nobody wants to go short of New Zealand dollars," says Mr John Mathieson of National Australia Bank, pointing out that the Euromarket lacks a healthy domestic backdrop. Only three New Zealand Government bond issues are actively traded and at one stage during the crash the entire domestic market went "bid only."

Unlike Australian dollars, the Euromarket fared poorly in the crash. A BHF issue dropped to a 15-point discount at one point, and many of the hardest hit issues are now finding a home only back in New Zealand.

Both markets are now trading on expectations about their respective domestic economies. Bankers expect a thriving Australian dollar market this year – so long as worldwide interest rates fall sufficiently far to keep coupons looking healthy to European investors and Australian wage and price inflation are not blown off course by the Australian Council of Trade Unions, a precipitate fall in commodity prices or a US recession.

Dominic Hobson

The dominance of the state

LAST YEAR'S highly volatile interest conditions would have been enough on their own to shake the French bond market. On top of that, the pace of structural change has continued to be rapid as the market completes its evolution away from the rigid, syndicated procedures of four years ago into a fluid market dominated by a single issuer, the government.

Total bond issues fell in 1987 by 15 per cent to FFr294.6bn, reflecting partly the rise in new equity issues – up 14 per cent to FFr156.9bn – and partly also a shift by both the government and corporate borrowers towards shorter term monetary instruments.

This decline in gross issues was further accentuated by the premature retirement of government debt, mostly through the state Caisse d'Amortissement de la Dette Publique, using FFr50bn of the proceeds of the government's privatisations.

Even more marked was the decline in conventional fixed rate bond issues, while floating rate bonds, indexed on a bewildering variety of references, climbed to FFr63.9bn in 1987 from FFr21.8bn in 1986. The shift to these floating rate bonds, already noticeable in the early half of last year, was accelerated by the October stock market crash, which drove private and corporate investors to seek more reliable investments.

The surge in subscriptions to short-term unit trusts, or Sicavs, especially money market funds, has continued into this year. Overall funds invested in short-term Sicavs rose from FFr312.6bn at the end of 1986 to FFr441.4bn at the end of 1987, and to FFr526.7bn at the end of April.

In the money market fund category, defined as including at least 75 per cent of their assets in monetary instruments such as repurchase agreements, Treasury bills, commercial paper and certificates of deposit, funds invested tripled, from FFr105.9bn at the end of 1986 to FFr294.7bn at the end of 1987, and to FFr368.6bn at the end of April.

The early months of 1988 have also seen a return to the market of some long-term, fixed rate borrowers. Some successful syndicated issues placed directly with the public, even achieving finer terms on occasion than the state, showed that investor demand was there to be tapped.

There has been a new flurry of convertible bonds, from companies like Suez and Midi, although this time around they appear to have been inspired largely by the difficulty of issuing equity directly on reasonable terms.

But the market as a whole has been more and more dominated by the state, which now accounts for a third of new issues and two-thirds of turnover in the secondary bond market. In 1987, daily volume in government bonds registered on the Paris stock market averaged FFr6.458bn, compared with FFr3.844bn in 1986. Total volume today is closer to FFr8bn a day.

The French Treasury has since 1985 undertaken a complete overhaul of its government debt management techniques, and has constructed, practically from scratch, a system of primary dealers, monthly auctions and tapstock issues which bears a close resemblance to the government bond markets that international investors will find in other major countries.

One of the results – though paralleled in other segments of the French financial markets – has been a substantial increase in the level of foreign interest in government bonds. The 13 primary dealers between them estimate that overseas institutions account for between 16 and 20 per cent of turnover in the main government bonds, as well as between 6 and 8 per cent of turnover in the shorter term Treasury notes.

Besides European buyers, FarEastern institutions have emerged over the last year as heavy purchasers. Some MiddleEast and Far East central banks also buy French government bonds at the average price of the monthly auction through the same non-competitive bidding process as the primary dealers.

The leading French bonds – the OAT 9.8 per cent 1996, and increasingly the newer OAT 8.5 per cent 1997 – are also the most heavily traded bonds on the international Cedel and Euroclear settlement systems, which can be used by international institutions alongside the more usual domestic Sicovam clearing house.

With the increase of anxiety about the functioning of the financial futures markets during the October crash, volume has fallen away on the Matif, Paris's financial futures exchange, leaving the cash market in these two bonds as the real benchmarks for the French market.

Some financiers have raised doubts about whether the development of the state bond sector has not damaged other bond market issuers. Non-state borrowers have found that, in order to achieve good terms, it has been necessary to go for a direct placing with the public through a bank network – such as the Crédit Foncier, which last October placed FFr1bn at 10.3 per cent, when the government was paying 10.6 per cent for its borrowings.

The development of this trend led Mr Andre Roquessiane and Mr Pierre Simonet, of the Banque Nationale de Paris, to wonder if the market was not returning to "pre-Leca" days, before the Leca report of 1983 led to the end of the old syndication structure where banks were paid a higher commission for placing bonds with individuals than with institutions.

The result then was that they always declared any unsold bonds as placed with individuals, and then sold them into the secondary market as soon as dealings opened. This led to new issues trading at an almost automatic discount to their sale price.

The Treasury and the banks have now come to an agreement on a self-disciplinary code aimed at preventing "controlled" issues from accounting for more than a quarter of an issuer's annual borrowings or from exceeding FFr1bn at a time.

The new code may, curiously, increase the number of controlled issues. Crédit Local, the state-controlled institution which specialises in local authority finance and is the principal borrower in the domestic market after the Government, with issues of around FFr25bn a year, had previously eschewed controlled issues, but plans to use them now that the rules have been clarified.

The problem has underlined the fact that the evolution of the French bond market is not yet complete. But although uncertainties remain over the degree to which the market will shift in the direction of shorter term monetary instruments, and over the possibilities of securitising bank debt, the structures have already come a long way in the space of three years.

George Graham